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ECONOMIC DEVELOPMENT AND CULTURAL CHANGE

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ECONOMIC DEVELOPMENT AND CULTURAL CHANGE
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INDIA'S CULTURAL VALUES AND ECONOMIC DEVELOPMENT: A DISCUSSION

A Comment on Professor Singer's "Cultural Values in India's Economic Development"

John Goheen
Stanford University

In a recent article,[1] Professor Milton Singer advanced an interesting interpretation of traditional Indian cultural values and their power to supply a positive ethic for the new India. Concern with this topic arises naturally enough, not only from the great need of improving the standard of living in India, but also from the importance of the successful accomplishment of the reforms now under way. Is there a tradition of values to which these reforms can appeal for strength to carry them through? Or, on the contrary, are there values in the Indian conception of life which are likely to hinder or even defeat such efforts? Both Asians and Westerners alike have recognized that the answers to these questions are important in estimating the future of the modernization of India.

The problem which Singer has posed, and to which he offers a solution, is related to another more specific topic. This is the interpretation by Western and Indian scholars that India is, in contrast to the West, a society based on "spiritual" values. The "material" values of the West are said to be essentially foreign to the genius of Indian society. To modernize or industrialize Indian society would seem, therefore, contrary to the basic values of the Indian peoples. The desire for material goods which industrial development presupposes requires the recognition of other values than transcendent ones. It is part of Singer's argument to show that the contrast of Indian and Western cultures drawn in terms of "spiritual" and "material" is false. He finds his evidence in the existence of a tradition of material values in India and, as at least equally important, in the role of modern Indian leaders, such as Gandhi, in using this tradition to justify social reform.

Another writer, Professor Hajime Nakamura, along quite independent lines, reached a similar conclusion in an article, "The Vitality of Religion in Asia".[2] Nakamura raises essentially the same question as does Singer: are there values in Indian society (or, in a larger context, Asian society) which would lend strength to the process of economic development? Both Singer and

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1. Milton Singer, "Cultural Values in India's Economic Development", in The Annals of the American Academy of Political and Social Science, May 1956.

2. In Cultural Freedom in Asia, Herbert Passin, ed., 1956.

Nakamura have in mind the Weberian thesis concerning the Protestant ethic and its effect on the development of capitalistic enterprise. Both writers find that there exists an ethic in Indian life which can "sanction" the materialistic values of an industrialized society.

It will be recalled that Weber found the efficacy of the Protestant ethic in its identification of the goods and values of ordinary life with the highest purposes of existence. The entire weight of religious sanction was thrown behind the practical values and ends of the entrepreneur. What lies beyond the duties and achievements of this life is important, but, whatever such a future state may be like, it is entirely in harmony with present pursuits. Other factors may be required to produce the dynamic character of western economic growth, but it seemed to Weber that the unity of religion and its institutions and the ends of the entrepreneur was essential.

There is, no doubt, some analogy to be found between the role of traditional Indian ethic in relation to social improvement and the function of Protestant ethic in the rise of capitalism. It is the strength of this analogy which is difficult to assess. Nakamura finds "vitality" in a tradition of practical and material values in Asian life. This tradition undoubtedly exists, and it might, with extraordinary leadership, justify a modern economic order and afford it a direction. It is precisely the significance of leadership which Singer stresses. He points out that contemporary developments in India have depended on Gandhi and the popular interpretation of Gandhi as a "religious man". It would seem from Singer's account that the efforts to improve village life spring rather from Gandhi's sanction than from a tradition of practical values which themselves stir to action. Indeed, the tradition of practical values to which both Nakamura and Singer refer has existed for centuries without modifying in any fundamental way the conditions of life which contemporary Asian leaders are trying to change.

It may be more profitable to look upon the leadership which Gandhi and Nehru have supplied in India as establishing an essentially new set of values for social reform. That these men have drawn on certain elements in the Indian ethical tradition is not to be denied, but this may be relatively unimportant as compared with the new values they have been able to introduce and so far sustain. The sense in which the leadership of modern India has broken with the past can be most clearly understood in recognizing the element of truth in the claim that the Indian outlook on life is "spiritual" as opposed to the more "materialistic" view of the West. It is in contrast with the dominant tradition of "spiritual" values that those of the movement of reform are new, and, for this reason perhaps, vital.

It is the profound dualism in Indian thought which the contemporary leadership of social reform has had to overcome. This dualism is central to the two most pervasive forms of Asian religion and ethical philosophy, Buddhism and Hinduism. Put in the simplest way, these philosophies hold that the goods of this life belong to two entirely different orders: the values of ordinary life and the values of contemplative and mystical experience. Of the two, the latter is altogether superior and the first is justifiable as a means to the latter. This is a duality within present existence, not a duality between this life and a future life. From this point of view there hangs over every effort of social and economic reform an important reservation: the happiness or well-being of the individual cannot be found within it.

Both Singer and Nakamura recognize fully the presence of this tradition of thought in Asian society, but they discount its power to affect the dynanism of change in Asia. In this they may be right, but it should not be overlooked that there is one important corollary to Asian dualism against which the ethic of social reform stands in sharpest contrast. This is the notion that human desires are the source of misery and unhappiness. The suppression of desires and their eventual elimination is the ideal behind the life of the ascetic. It is here that classical Indian thought runs directly counter to social and economic development. To improve social conditions (except for those who sacrifice their lives to attain better conditions for others) requires the creation of new desires and the means to their satisfaction. Most of all, it is sanctions for these new desires and their satisfaction which the movement of social reform has had to create.

The expression of the traditional view by the teachers and philosophers of contemporary India is still very strong. Dr. T. M. P. Mahadevan, in his presidential address to the Thirtieth Indian Philosophical Congress, has stated this position in a very positive way. He finds the modern "externalist" view at fault in its emphasis on material goods and their pursuit. In contrast, Mahadevan outlines an "internalist" view of life which he finds justified by Vedanta. "If he [man] should be saved, he must be made to turn back from his meaningless race for material power. Not by adding things to oneself can one be happy. True happiness lies within."[3] Although there has been a history of dissent to this view in the complex tradition of Indian thought, it is still the dominant one.

It is in this light that the social and economic reforms, which Gandhi and his followers have initiated, appear as a new ethic in Indian history. Some of the leaders of reform have interpreted the movement in Indian life, opposing the "quietism" of the tradition and introducing an activism in its place.[4]

It is not to be concluded that this interpretation of the Indian situation makes the future any more certain or any easier to predict. The future is perhaps even more precarious than if there existed a dynamic tradition of practical ethics of which the present reforms are another expression. Much will depend on sustaining the impetus of the new movement, and in this substantial success in current reforms will be an important factor.

A Note on Mr. Goheen's Note

M. N. Srinivas
M. S. University of Baroda

Mr. John Goheen raises three issues in his note above: (1) Is there a "tradition of practical values" in India? (2) If the answer is "yes", then how is it that the tradition has "existed for centuries without modifying in any funda-

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3. "The Re-Discovery of Man", Proceedings of the Thirtieth Indian Philosophical Congress, December 21, 1955.

4. Jawaharlal Nehru, The Discovery of India, 4th ed., p. 365.

mental way the conditions of life which contemporary Asian leaders are trying to change?" (3) Finally, Mr. Goheen thinks that Indians regard their outlook on life as fundamentally "spiritual" and as opposed to a "materialist" view of life, and that this makes economic development a precarious affair in spite of the lead given by Gandhi and Nehru. Does this view correspond with the facts?

I shall confine my remarks to India and leave the rest of Asia to those who are competent to write about it. I shall, in answering the first question, keep in view rural India, in which live 80% of India's teeming millions, and of which I can claim to have some first-hand knowledge.

To the student of rural India, the first question admits of only one answer. In fact, he is surprised that such a question could be asked. The peasant is nothing if he is not "practical". He is naturally deeply interested in agriculture and everything related to it--land, rain, water, manure, cattle, labor, pests, etc. His entire family participates in the work of agriculture, and they constitute a single economic unit in relation to the outside world; but one often comes across pretty strict bookkeeping even between members of an elementary family. Money from the sale of surplus crops belongs to the man, while the money obtained by the sale of milk, butter, buttermilk, eggs, and fowl belongs to the wife. The better-off peasant teaches his son the value of money and thrift early in life: the small sums of money which are occasionally given to a boy by his parents and visiting relatives are put by, and a goat or sheep bought with the savings. The boy takes the animal out to graze and looks after it generally. The young of the goat or sheep are sold and the money credited to the boy's account. This money is then lent out at 12% interest, and it is not uncommon for a boy to have a few hundred rupees in the course of a few years. There is no doubt that this money belongs to the boy, and in any dispute between the boy and his father over it, the elders give their verdict in favor of the boy. There is one such dispute in my notebooks--the boy was 15 or 16 years of age, and not only did he know what was his and what was not his, but he was also most eloquent in defending his rights. He gave his father a hard time indeed.

The "puritan" is an object of admiration--the man who does not smoke or drink and who works hard and saves money is respected by one and all. If over the years he acquires wealth, this is attributed as much to his hard work as to the fact that God has favored a "virtuous" man. When a rich man is a "bad" man, villagers attribute his wealth to the good actions which he had undoubtedly performed in a previous incarnation, and point out some misfortune to him or to one of the members of his joint family as evidence of divine anger with his present "badness". "If you do what you ought not to, then things will happen to you which ought not to happen;" so runs the Kannada proverb.

The peasants of southern Mysore are highly skilled agriculturists, and this is especially true of the irrigated areas. Canal irrigation is several centuries old in this area, and tank-irrigation is probably much older. Like any body of people who are heirs to an old, elaborate, and skilled tradition, these peasants are conservative, and they are frequently criticized for this. But the peasants are understandably skeptical of every panacea offered by a reformer or official or expert. The stake to the peasant could not be higher--it means his very survival. The peasant, on his side, complains that people who wish to change him are too bookish. He dismisses their suggestions as "mere book brinjal [eggplant]".

The peasant's "practicality" and "earthiness" are seen in his every activity, including religion. He goes on an arduous pilgrimage in order to fulfill a vow made during his child's illness. During a drought, he goes to "consult" a deity as to when it is going to rain in his area. And in South India, the propitiation of village goddesses is closely associated with obtaining protection from epidemics of plague, small pox, and cholera.

The peasants with whom I came into intimate contact were skilled as well as shrewd, and some of them were much abler than others. In March of 1948, the peasants of Rampura requested a visiting minister of the State of Mysore for the loan of a bull-dozer (to level land) and a tractor; for electricity; for a middle school; and for better health facilities. They wanted electricity as much for lights and radios as for power. In 1952, a bull-dozer was levelling the headman's land, and two rice mills and two flour mills were operating. The top men in the village were switching over from the traditional fields of investment--land, rural housing, money-lending, and jewelry--into new fields such as rice and flour mills, bus lines, and urban houses for renting. A fifteen-year-old boy from the neighboring village of Kere told me that there were too many people on the land and that industries were urgently needed to take them off the land. He also told me that the hills around were rich in minerals like gold and copper and that these ought to be exploited.

I hope I have adduced enough evidence to show that the peasant does have a "tradition of practical values". And nowadays, he is aware that systematic efforts are being made by both the central and the provincial governments to improve his lot. The Five Year Plans mean something to him, although naturally he sees them more in local than in all-India terms. I do not think I would be going too far if I said that the more intelligent peasants would not support a party which did not have a plan for the economic development of the country.

If it is agreed that there is a tradition of practical values, then the question, so pertinently asked by Mr. Goheen, arises: "Why has it not been successful in improving the conditions of life of the people?" I suggest that this problem can be satisfactorily answered only by historians after a thorough study of the social and economic conditions obtaining in India before the arrival of the British and the Muslims. In the meantime one can only guess, and there is no way of proving or disproving a guess.

It is not unlikely that the failure of Indians to improve their material conditions lay in the social and political institutions of the country. The institution of caste tended to confine the loyalties of individuals to a group which became progressively smaller owing to the marked tendency to fission in the caste system. The over-development of the concept of pollution split one sector of Hindu society from another, and the lower castes, and especially the untouchables, had everything to gain by going out of Hinduism into Islam or Christianity. Besides, caste rules prevented any development of a sense of adventure: crossing the seas meant becoming an outcaste. (Surely, these rules could not have been operating when Hindu rulers colonized Ceylon and South East Asia?) Caste also came in the way of the development of a sense of nationhood, and without it Indians could not hope to stand against outsiders. Even with a strong sense of nationhood it would not have been easy to stand up against the Europeans, who brought new armaments and a new technique of warfare. Here, India, like many another non-European country, was handicapped because of the power which the Industrial Revolution placed in the

hands of European countries. And once Indians lost their freedom, the door was opened to a vast number of ills. It is possible that popular interpretations or misinterpretations of maya, samsara, and karma were the aftermath of defeat rather than its cause.

This brings me to the final issue raised by Mr. Goheen. There is no doubt that in traditional philosophical Hinduism, the phenomenal world is conceded only a relative reality as compared with God. But it must be remembered that this view coexisted along with the theory of varnāshrama dharma, which insisted on the performance of the duty proper to one's station in life. The Gita, which is of greater authority with the Hindus than any other philosophical work, once and for all gives the verdict in favor of performing one's social duty.

It may be argued, however, that the Hindu world view does not inspire great enthusiasm for this world, and that its effect on the most sensitive minds was such as to draw them completely into religion. I may point out here that Shankara and Ramanuja did a great deal for the revival of Hinduism. Vidyaranya was an adviser to the Vijayanagar kings. Popular saints such as Basava, Nandanar, and Meera were also rebels in social life. Even those who did nothing else but spend all their time in prayer and meditation influenced social life indirectly: they came frequently in conflict with the pharisees to whom religion meant no more than innumerable do's and don't's. Besides, many of these saints came from the "low" castes, and this had probably a liberalizing influence on the caste system.

Mr. Goheen mentions Gandhi and Nehru as the leaders who brought a new outlook to India. The new outlook is at least as old as Tilak, if not older. It may be recalled in this connection that it was Tilak who wrote (during eight years of imprisonment in Mandalay) a monumental commentary on the Gita entitled the Gita Rahasya, in which he expounded the doctrine of selfless and disinterested action as the central teaching of the great book. Tilak felt the need to justify social and political action, and it is significant that he went to the Gita to seek a sanction for action. Thanks to Tilak, the weight of Hindu tradition is once again behind social and political action.

A question which I would like to ask Mr. Goheen is whether he regards Hinduism as more opposed to success in this world than Christianity. As I understand it, Christianity too is other-worldly, and it glorifies poverty and humility. Yet it is in the Christian countries that the Industrial Revolution was born and developed. It is the Industrial Revolution which is the main watershed in human history. When one surveys the change it has wrought in avowedly Christian countries, Mr. Goheen's fears seem groundless. India has embarked on systematic industrialization, and the important question is whether development will come about through democratic or other means. My fears, in this connection, are quite the opposite of Mr. Goheen's. India might become a completely "materialist" country in the not-distant future. Hinduism is an acephalous religion, and it may not stand up to the Industrial Revolution even as well as Christianity or Judaism. Some people may regard this as a tragedy not only for India but for the world.

Comments

Dr. D. G. Karve
Reserve Bank of India, Bombay

It is indeed very heartening to Indians to know that friends abroad are showing a genuine concern for the rapid material progress of India as a basis of the firm establishment of democratic society. The least that academicians in India may do to show their appreciation for these friendly intentions is to offer such reassurance as is consistent with the past and present tradition of India against fears like the ones mentioned as being entertained by Mrs. Roosevelt.

One may assume as almost axiomatic Mrs. Roosevelt's reasoning that unless Indian democracy proves itself capable of realizing for the Indian people a large measure of that material progress to which the nation's resources entitle them, they will not actively support the continuance of the system. Fortunately, as Milton Singer rightly found out by his closer study of Indian life and literature, her fears that the reputedly Indian doctrine of renunciation would stand in the way of India's material progress, unless it is replaced by the doctrine of hard work, are almost completely unfounded. In a way, the very fact that Indians are not expected to support democracy unless it brings material welfare attributes to them a scale of valuation which cannot be said to be harmful to progress. If one may respond to Mrs. Roosevelt's doubts by taking an outsider's view of American prosperity, one may state that no less unfounded is her reasoning that American prosperity is the outcome of the American philosophy of hard work.

It is not denied that Americans work hard. But, as Singer points out, so do Indians, under given circumstances. It is not necessary to go into the early economic and social history of industrially developed nations to show that the tempo of work is more often the reflection of opportunities of progress than a prime cause. As Srinivas says, the Indian farmer, to take an example, is nothing if not practical. He works hard, and he works continuously wherever conditions of farming permit it. He lacks neither incentive nor proper appreciation of even the moral benefits of material well-being. The Indian factory worker is equally practical and is always at the grind. What characterizes the U.S.A. is not the doctrine of hard work so much as the opportunity to work hard to better purpose. Call it renaissance or call it industrial revolution, there is a phase of transformation of equipment and organization after which the same code of virtues, individual and social, begins to have a new material content.

To say that religious protestantism had much to do with capitalism is to strain an argument. There is enough protestantism in places and periods not marked by material progress, and a large number of devout conformists of all religions have distinguished themselves as successful exploiters of opportunities to make money. In fact, this is an aspect of religious tradition, and especially of Hindu religious tradition, which has not received sufficient attention. Srinivas has drawn attention to the all-pervasive importance of the caste system and especially to its spirit of exclusiveness and rigidity. But there is much more to it than that. Besides the common code of behavior

urged upon all Hindus, and even more important than that, is the socially accepted code of conduct for each caste. This caste-centered, which in practice means occupation-centered, code is called jatidharma. Though it is not reduced to a single code, it is well understood and on the whole well respected.

Before going on to state one or two illustrations, let us remind ourselves of an important fact which is not mentioned in any of the current contributions so far. Not all Indians are Hindus. Nearly one-fifth of them are Muslims, Christians, Parsees, and Jews who occupy very important positions in business. Before the recent partition of India, this percentage was much higher. Experience in India has not shown that the Hindu lags behind any of these in making full use of his opportunities. In fact, the concept of Jāti-dharma--which Milton Singer has indirectly referred to as the functional code--has particularized virtue, or a code of values, as appropriate to one's role in society. A Kshatriya, warrior class, must a fight; a Brahmin must pray; a Vaishya must trade and farm; a Shudra must serve; and so on. Like the Aristotelian description of pure and perverted forms of social organization, these codes also have their pure and perverted forms. In a healthy and progressive condition of society the purer aspects of the code are followed--as it is seen that honesty is not only the best policy, but is also the best business. In a decadent form of society, the perverted or unhealthy version of a functional code comes to prevail. When an economic transformation is being promoted as a part of national planning, the obstacle which Indian planners themselves foresee refers not so much to the lack of emotional or spiritual incentive among the people, as to a strain of excessively self-centered, and to that extent anti-social, version of correct economic conduct from which all classes have suffered during the days of their political dependence and economic backwardness.

Things like black-marketing, corruption, indifferent work, tax-evasion, short weight, sub-standard specifications, etc., are often tolerated not, indeed, as virtuous, but as natural and almost permissible. To that extent, sharp practice, far from being put down as a crime, tends to be at least tacitly accepted as professional finesse. During periods of strong and just rule, during periods when all sections of the community had ample opportunities of self-improvement, and when, therefore, a strong public opinion could be marshalled behind the pure version of social virtue, these evils have been successfully checked. Indian planning, as a part of democratic nation-building, has therefore to attempt consciously to hold the individual's "profit-making" desire in check, and to train it in socially beneficient channels. The current gap in economic ethic is not so much on the individual as on the social plane. As Srinivas has pointed out, farmers are practical to the core, and they are impatient for progress. The same can be said of all other classes, including the tribals. The great task of national transformation to a higher and progressive level of material welfare entails also an equally onerous task of moral transformation. Here a process of renaissance in terms of our own purer versions of individual and social virtue, as also of a sublimation of our social virtues from parochial and caste levels to universal human levels, is called for. Such a task has been attempted in different stages of our progress by great leaders. If the work of Gandhi and Nehru has any significance, it is in this broad context of a free, balanced, and progressive human life.

Singer speaks of the guru or the holy man tradition in India. Without being too critical one may say that for some sections of the people and for some

there is much more to it than that. Besides the common code of behavior

periods of history, almost all nations have such traditions. We respect our holy men and seek to benefit from their leadership wherever it is appropriate to do so. But a mystical or superstitious worship of gurus and cults belongs to our degenerate or impure stage, not to our healthy and progressive epochs. Srinivas has drawn attention to Tilak, a founder of the Congress, scholar and educationist, who died in 1920, whose name is not so well-known abroad, but who has done more to reinterpret Indian traditions in terms of activism, or energism as he himself prefers to call it, than almost anyone else of his generation.

These, however, are only a few among the many who by their daily thought and conduct shape social mores and social modes. It is probably not so well-known--in any case, it is not so well-remembered--that Hindu religion is not personal in its origin, authorization, or expression. Starting from the Vedas, the holy books of Hindu religion, all our basic scriptures are of non-personal origin. Their effective authorship does not belong to any particular individual. They represent a common concept, or at the least, they represent a school of thought.

Successive books stand as much for authorized reinterpretation as for accepted revisions. Such a teleological and social tradition of stating, interpreting, and reshaping analytical as well as prescriptive knowledge is very helpful to healthy progress, if the conditions are propitious and if leadership is of the requisite quality. The interest that men of good intentions everywhere are taking in the democratic progress of India, in common with the rest of the world, indicates that conditions are likely to be propitious. The values which have been inscribed into the Constitution of India, e.g., improving the standard of life, full employment, non-concentration of economic power, equality of opportunity, etc., are the guiding principles for all parties and for all authorities, including the planning commission. Given normal watchfulness on the part of our own people and normal friendliness of other nations, there is reason to believe that neither economic progress nor the democratic life of India will suffer a setback because of any shortcoming in our religious or cultural tradition. It is a part of our plan to build a better world for ourselves on the strength of better values, which are ours no less than of the rest of humanity.

A Note on Mr. Srinivas' Note

John Goheen

Mr. Srinivas has misunderstood my comments in one important respect. There is no doubt in my mind that there exists a tradition of practical values in India. As Mr. Srinivas suggests, it is difficult to imagine how anyone, even a philosopher, could assert the contrary.

The intent of my remarks was to raise a question about the relevance of the Weberian thesis to the Indian situation. In this regard, I wished to call attention to an ideological or philosophical outlook which, it seems to me,

is more pervasive of Indian life than any comparable aspect of the philosophical traditions of the West. How is one to evaluate the doctrine of renunciation in the "dynamics" of social change in India?

I find Mr. Srinivas' remarks, which are relevant to the answer to this question, very interesting, clear, and valuable. Mr. Srinivas may be right that the interpretation of renunciation as renunciation "in the service of others" (to use Mr. Singer's phrase) will place the weight of religious and philosophic tradition behind Indian social reform and industrial development. I may be quite wrong in seeing more strength and resistance to social change in traditional interpretations of renunciation than they actually have. I should be the first to admit that Indian religion and philosophy have shown throughout their history an extraordinary adaptability. Yet the basic attitudes have remained the same.

A Postscript

Milton Singer
The University of Chicago

Mr. Goheen's second note clarifies some of the issues and indicates a wide area of agreement in the discussion. We are all agreed that there is an indigenous tradition of "practical" values in India--of esteem for hard work, wealth-getting, and material prosperity--and that it is not necessary for Indians to learn such "materialistic" values from the West in order to have an incentive for social and economic development. By implication, Mr. Goheen also accepts the explanations suggested both by Srinivas and Karve for the failure of this tradition of practical values to sustain in the past that level of prosperity and development which is now sought by India's leaders. Since I, too, accept this explanation, I should like to amplify it a bit.

Essentially, Srinivas and Karve suggest that certain dislocations introduced into India's social, economic, and political organization by Muslim and British rule may have a good deal more to do with retarding economic development than any shortcoming in cultural values. Mr. Srinivas thinks that the restrictions of caste may have become excessive in this period, and Mr. Karve derives from this malfunctioning of the system and the associated political dependence, not only economic backwardness, but a general breakdown of the social virtues and of the agencies of public opinion which support them. It is for this reason that he thinks a moral transformation "must accompany the economic transformation". It is in this context, too, that he finds the significance of India's great reformers, who, as Mr. Srinivas points out, are frequently social as well as religious reformers.

Indeed, one might argue with considerable cogency that it was just this period of prolonged foreign rule and dependence that destroyed or crippled the indigenous engines of material development--the merchants, the artisans, and administrative officials. With these groups subjugated to a foreign colonial

policy, the dynamic developmental forces within the system were frustrated. For Hinduism and the caste system are not opposed to a healthy and progressive condition of society. I have heard one of the most orthodox of spiritual leaders contend vigorously that the mercantile and political castes should be exempt from the requirements of austerity to which the Brahmans are subject, so that they would have an incentive to develop the country's wealth and power. The traditional status of some of these groups, particularly the artisans and merchants, may be low, but this has not stopped them from pursuing their caste dharma most conscientiously, whether it be wealth or craftsmanship. The fact that manual skills and business entrepreneurship have been despised by the upper castes and the educated classes is in part explained by this traditional low social status, but it is perhaps even more a result of the condition to which indigenous craftsmen and entrepreneurs were reduced by foreign domination, coupled with British encouragement of clerical and literary education at the expense of engineering and science.

The achievement of independence, the community development programs, and the earlier movements for Swadeshi, for Khadi, and for Basic Education and technical education are changing these attitudes.

It is not, however, the weakness of Indian "practical" traditions, but the strength of her "impractical" tradition that Mr. Goheen sees as the major obstacle to social reform and industrial development. Considered by itself as an abstract philosophy, the doctrine of renunciation is clearly otherworldly. But, as Srinivas points out, so is Christianity when so viewed, yet this did not prevent Europe from becoming industrialized. The answer to this apparent paradox lies, of course, in the consideration of how both Christianity and Hinduism function in the concrete contexts of society and culture. Weber's analysis of the relation of puritanism to the rise of capitalism in Europe is just such a contextual consideration. It is not necessary to accept his detailed conclusions to appreciate his more general truth that even the most otherworldly doctrines may have important this-worldly consequences. A society dominated by a philosophy of renunciation need not be a society of ascetics. In India, ascetics and holy men have never constituted more than a tiny fraction of the population. There have always been a sufficient number of householders willing and able to do the world's work. And while the ideals of asceticism may indirectly influence the general population, not all of these influences oppose social reform and economic development.

In my original article, I suggested some of the ways in which asceticism may indirectly perform positive social and economic functions in the transfer of property from generation to generation, in redistributing wealth from rich to poor, and even in the accumulation of wealth. These functions have been accelerated by the reinterpretations of the religious tradition by a Gandhi or Vinoba Bhave, but they have probably always coexisted with asceticism. Mr. Srinivas reports that among Mysore villagers, the "puritan" who works hard and saves money is respected by one and all. And, as in Europe, religious gifts to temples and other religious institutions resulted in accumulation of capital, some of which was used for developmental purposes, including agricultural development (see, e.g., Burton Stein, "The State and Agricultural Development in Medieval South India", ms.).

This process still continues. Quite recently, the Sri Venkatashvaran University, with a very strong emphasis on science, has been established with funds from Tirupati, a wealthy shrine center.

A more modern type of link between asceticism and capital accumulation has been identified by Ashoka Mehta, one of India's leading socialists:

> If India is to shake off the mood of frustration the economy must expand quickly and rapidly. Because our economy is backward it exercises special compulsions that we can ignore only at our peril. Economic development to be rapid must be based upon postponement of present wants for future plenty. The psychology of the people must cease to be consumption-oriented and become production-oriented. The vast capital needed for the economic reconstruction of India must come from the co-ordinated labour and self-denial of our people. Such a national effort, a vast festival of labour, is possible only in the atmosphere of egality and austerity. (Presidential address to the Seventh National Conference of the Socialist Party at Allahabad, 1953.)

This call for an "ethic of austerity" brings the argument full circle and reverses it; asceticism is not only not an obstacle to economic development--it is the very condition for success in such development.

I do not know whether these considerations will have converted Mr. Goheen. To my mind, they indicate that the dualism of other-worldliness and this-worldliness to which he refers is far more neighborly in practice than it appears in theory and not at all the obstacle to economic development he fears it to be. In any case, I am grateful to him for having stimulated by his critical comments this discussion of some fundamental issues, and also to Mr. Srinivas and to Mr. Karve for their valuable comments.

ECONOMIC ASPECTS OF A BOSS-HENCHMAN SYSTEM IN THE JAPANESE FORESTRY INDUSTRY*

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This is a case study of the economic activities and methods of acquisition of power of a typical "boss" of the forestry and wood products industry in a rural community in a central Japan prefecture. A detailed examination of this case may assist in the understanding of certain features of Japanese economic development and its social background.

In general terms, Japan is a highly populated country with insufficient natural resources and slender reserves of capital. The economy must be stretched and adjusted to meet the needs for support of large numbers of people who would otherwise be jobless or (in a richer country) become financial wards of the state. In many mountainous regions of Japan, where forestry and related industries constitute the principal source of employment, population increased considerably in the post-World War II period, due largely to an influx of urban people formerly supported by war industries. This excess population was thrown back upon the forestry and wood industry as a source of support. Japan's need to rebuild her bombed cities created a demand for lumber, thus leading to much activity in forestry and consequently to jobs for most of these new residents.

As has been the case in many countries, the Japanese solution to problems of large population and a marginal economy has been to permit an indefinite expansion of employment, so as to divide the small amount available among the largest number. The state has shown less concern with the problems of individual economic security than has been the case in Western countries. In place of large-scale public works, extensive employment security measures, liberal unemployment insurance benefits, and the like, one finds padding of employment rosters with large numbers of workers, the proliferation of small-scale productive units, and the formation of groups of employees ranged around "bosses" who guarantee a minimum rate of employment (at lower wages than are typical for more highly rationalized industries) in return for loyalty. In these ways, a maximum number of people are supported by industries with minimal investments.

The forestry industry provides good examples of these tendencies in the Japanese socio-economy. Being almost entirely rural in locus and replete

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* The research on which this paper is based was done in 1950-51 at the request of the Natural Resources Section of the Japan Occupation and was supported by the Ministry of Agriculture and Forestry of the Japanese Government. The work was directed by John W. Bennett and David L. Sills. The primary objective of the research was to determine social features of forestry communities important to the success or failure of forest conservation plans.

with small "primary" groups and productive units with little capital, it presents abundant possibility for the development of boss-henchman systems of control.[1] These systems are important in the study of the Japanese forestry economy because they permit the limited income potential of forestry to support a very large number of people. Through the development of hierarchal patterns of loyalty and obligation, in which everyone is assured of some kind of return on his services, a built-in social and employment-security system is created. Scarce capital is concentrated in the hands of the "boss", who disburses it according to need and hierarchal precedence.

The paper consists of four parts: first, a brief discussion of the boss' personal and family background; second, a description of his major economic activities and sphere of power; third, some generalizations about his techniques of acquiring and maintaining power; fourth, implications for economic development.

I. Personal History

We shall call our boss by the fictitious name of "Yoichiro Harasaki"; the community in which he lived, "Nishiota Mura". (All names of other persons, places, and organizations are likewise fictitious.) At the time of the study, four related families of his buraku (smallest administrative division of a Japanese rural community or mura) were known by the name Harasaki. None of these families represented early settlers, nor had they been particularly prominent in Nishiota before the war. Nor had any owned important amounts of forest or farmland. Yoichiro was a member of one of these families, and his cousin, "Masaru Harasaki", a man of importance in "Kaga City", the nearby town in which the local wood products factories and sawmills were located, was a member of another. Both were regarded by the local people as "career men" or "upstarts"--persons who made their way up from lowly beginnings.

Yoichiro Harasaki's rise was based upon his close connections with the "Ikeda" family of an upstream buraku. This family owned much forest land and also maintained the unique "Hanagamori Shrine".[2] Some thirty years

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1. Among the many groups supported in whole or part by forestry were the following: owners of commercial forests (most forests in the communities studied were owned by local residents); dealers in timber; sawmills; wood products factories; lumbermen and transport workers; charcoal kiln proprietors; scavengers of dead branches, underbrush, and sawmill refuse; part-time farmers working as lumbermen and as collectors of leaf litter for use as compost in their fields; firewood dealers and cutters; small, single-family cabinet shops. In this paper we consider only the forest owner-timber dealer-sawmill-factory group. However, the total economic operations of the "boss" whose case we shall study included many of the groups noted above.

2. This Shrine is an important and famous institution of the Kaga City area. It was originally the private shrine of ancestors of the Ikeda family, and dedicated to the family clan deity. It is still owned by the

ago Harasaki was employed as a manager of grazing lands owned by the Ikeda family. He owned a few head of cattle of his own and planned to establish a dairy in Kaga City, but this venture failed due to lack of capital. However, he had become a protege of the dowager mother of the Ikeda family, and since she had control of the forest lands, she was able to set him up in the charcoal-burning business on some of this land. During World War II charcoal was a profitable commodity, so Harasaki was able to use his proceeds to purchase forest land and to establish himself as a timber dealer after the Surrender.

His favored relationship with the Ikedas also gave him control, as their forest manager, of their vast timber holdings. In Japanese forestry areas, the manager of private holdings can assume the power of deciding when to sell tracts of timber and to whom to sell them. During the war, Harasaki's connection with Ikeda brought him the office of Mayor of the community and Chief of the Forest Owner's Association (FOA). The Forest Owners' Associations were set up in all forestry communities by Government order during the war as a means of controlling the cutting of timber. The FOA's were supposed to regulate all sales and lumbering operations, taxation of timber, and other details of forestry operations which we shall discuss later.

II. Property; Business Connections; Spheres of Power

Harasaki owned a little more than one cho[3] of farmland and about 120 cho of forest land, making him one of the five or six largest forest owners in his locality and among the first twenty in the community. Considerable research was required in order to arrive at the figures of 120 cho, because the

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family. The shrine was founded by one of the yamabushi, the "mountain priests", possibly as early as the 8th century A. D. These priests used to wander in the remote mountainous regions of Japan in search of spiritual enlightenment and solitude. According to legend, the "Hanagamori Shrine" was founded by Ennogyoja, the 8th century yamabushi who is said to have established the custom of mountain worship. The founder of the Ikeda family is said to be one of the two oni (ogres) who served Ennogyoja. During the Tokugawa period, the shrine was visited by pilgrims on their way to a nearby holy city, and became one of the important subsidiary places of worship in the area. The deity, Tengu, was probably added later, although some claim that it was the original family god. The shrine is particularly popular among farmers of central Japan, who feel that the deity has the virtue of increasing crops and protecting the worshipper against fire and theft. Forty persons are employed at the shrine, and the establishment obtains a large yearly income from donations and concessions. It gives existence to several inns, restaurants, and souvenir shops. Mr. Ikeda's prestige as owner and patron of the shrine is very great, and he has a permanent high status in his community. As long as Mr. Harasaki was a friend and business manager for Mr. Ikeda, he enjoyed considerable freedom from interference, since few would consider offending Ikeda. He borrowed Ikeda's sacred prestige, as it were.

3. One cho equals 2.45 acres.

official records of his forest holdings in the community office records, his own estimates given to the research team, and the estimates of other informants did not check. Such variations in reports of forest land holdings were found to be common in this and other communities, since by means of them, various complex violations of cutting taxes and concealment of tress cut in excess of Forest Management Plans could be managed.[4] As it turned out, Mr. Harasaki's statement to the research team was very nearly correct. This figure was also confirmed later by one "Tosaku Maeda", a "kobun"[5] of of Harasaki's, who was an employee of the Forest Owners' Association (and to whom we shall return in a later context).

Mr. Harasaki listed his own occupation as "timber dealer".

At the time of the study, and during the war, Harasaki was Chief of the FOA. In the postwar period, he was also a director of the Agricultural Cooperative Association (ACA). These were the two most influential organizations in the community economy. In addition, he was Postmaster of the community, a job which in Japanese rural communities is usually held on a contract basis by a man of importance. The post office also was the local bank, since postal savings (and the ACA) had the only deposit facilities in the community.

Harasaki's most important business connection was with the "Kaga Construction Co.", a large contracting and wood products firm. He had been President of this company for a short time after the war, but withdrew in favor of his eldest son. He had no official position in the company at the time

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4. During the period of the study, as a device to help prevent overcutting, the national Government charged a flat tax on each tree cut. The "Forest Management Plan" was a voluntary program of controlled cutting arrived at by the local forest owners in the FOA and submitted to the Prefectural Government. Once submitted, the Plan was not supposed to be exceeded, although penalties were not severe.

5. The term "kobun" ("child-status") is the reciprocal of "oyabun" ("parent-status"). Oyabun is the term frequently used in Japan to refer to a boss, and kobun to his followers or henchmen. The phrase "oyabun-kobun system" denotes the system of mutual obligations and superordinate-subordinate status relationships. The terms are, in some respects, become archaic in feeling and are often applied only to gangster groups or to formal and ritualized relationships found particularly among labor bosses. Local people frequently used the terms in discussing Mr. Harasaki and his followers, but strictly speaking, Harasaki was not an oyabun in the formal sense, nor were his followers and true kobun. Harasaki was, essentially, a large-scale entrepreneur who used traditional Japanese methods in the formation of his socio-economic relationships. People also referred to Harasaki by the more casual term, "kashira", which simply means "boss". See Iwao Ishimo, "The Oyabun-Kobun: A Japanese Ritual Kinship Organization", American Anthropologist; and I. Ishino and J. W. Bennett, The Japanese Labor Boss System, Interim Technical Report No. 3, Research in Japanese Social Relations, Ohio State University, 1952.

of the study, but participated informally in company business. Mr. Ikeda, the Mayor and Harasaki's patron, was listed as a salaried advisor.

Power in the Community

Harasaki's status as an ex-mayor, and his close friendship and business relationship with the Mayor, Mr. Ikeda, put Harasaki in an especially fortunate position to influence community affairs. Respondents commented that Ikeda consulted Harasaki frequently on government matters. Mr. Ikeda himself was not particularly aggressive or even active in public affairs, being more interested in his many hobbies and in the affairs of the family shrine. He was not concerned with personal finances and permitted Harasaki to manage them for him. For example, Harasaki sold some of Ikeda's forest land to pay Ikeda's assets tax, which had been placed in his charge.

The village office staff under Ikeda was virtually identical to that employed by Harasaki during his term of office as Mayor. These people, including Harasaki's younger son, were regarded throughout the community as loyal followers of the boss, ready to do his bidding.

Harasaki's job as Postmaster, his supervision of deposit facilities of the post office, and his knowledge of those of the ACA provided him with detailed information on the personal financial condition of all those villagers who used these facilities. This included nearly all the local forest owners, most timber dealers, merchants, and workers.

Power in Economic Organizations

Harasaki, as Chief of the FOA, was able to build up a system of control based on the personal loyalty of a group of henchmen, like Tosaku Maeda, mentioned earlier. As a director of the ACA, he shared power with 18 other directors who were his close acquaintances. Two of them, one the brother of Maeda, were perhaps his closest friends. They were two of the largest forest owners in Nishiota and were also community assemblymen. Harasaki's connections, jobs, and influence in the FOA and ACA thus constituted a fabric of interwoven control with important ramifications in community political organization.

This pattern can be illustrated by an analysis of the position of Tosaku Maeda. This man, hired by Harasaki and regarded as one of his henchmen, was a records clerk and technical consultant for the FOA.[6] He was also an official of the Kaga Construction Co., assigned to the job of buying stands of timber in the community and rounding up squads of lumbermen for cutting operations. The advantages of these multiple roles were obvious: Maeda was in an excellent position to obtain information about saleable stands of timber, to recommend a suitable price to the FOA (which was supposed to control prices to prevent over-competitive bidding), and thus to enable the Kaga Construction

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6. His main job was to inspect forests put up for sale and make judgments of value based on the age and condition of the trees.

Co. (i.e., Harasaki) to make the purchase. Finally, he could control the records of the transaction as registered in the FOA. Maeda was himself a subsidiary boss of considerable power, with several circles of henchmen among timber dealers and lumbermen.

The membership of the FOA, as was the case in nearly all the forestry regions, was dominated by the largest forest land owners. In Nishiota, these people were in league with Harasaki and were to a great extent dependent upon him, since he controlled a substantial portion of the timber market of the community. There was little question but that Harasaki dominated the entire organization and all its operations.

As previously noted, Mr. Harasaki had virtually complete control over the vast Ikeda forests. This meant that he determined the rate and volume of cutting, and through his various official and business roles, also determined the price of the timber and, indirectly, the amount of cutting tax charged. In addition to his control over these forests, he came to handle the business of a majority of other forest owners in the community.

A study of various reports and estimates given by respondents indicates that a minimum of 50 percent and a maximum of 75 percent of all trees cut in Nishiota forests in 1949 were bought and felled by Harasaki's company, the Kaga Construction Co. The average of the estimates of volume of cutting by the company is 15,000 koku[7] of timber per year.

The FOA was required to publish and submit to the Prefectural Government a yearly report on cutting based on the limits set by the Forest Management Plan. According to the 1948 report, 28,534 koku of timber were cut in Nishiota Mura, out of which the Kaga Construction Co. was reported as having cut 2,350 and the "Ota Timber Company" (another Harasaki company, described later) 3,883 koku. This made a reported total of 6,233 koku cut by organizations under Harasaki's control. If the previous estimates by reliable informants were even nearly correct, this official figure for the Harasaki operations was only about half of the actual total. If this is correct, the official figure for the community total was accordingly much too low.

Masaru Harasaki was reported as having cut 2,130 koku--a figure also regarded by informants as less than half of the actual amount.

Under-reporting of the amount of trees cut appeared to be a covert systematic policy of the FOA. In the case of the officers, directors, and consultants of the organization, fewer cutting operations than actually took place were reported, and in most cases the volume of trees cut was reported as less than actually took place. The important point is that the leaders of the organization had the power to report only as much as they pleased, the amount determined by their personal interests. Harasaki, as chief, was in a position to reward his friends and associates by ignoring or even assisting their dealings, thereby building up obligations to himself. The only check upon the group was their own estimate of what would appear to be a fairly reasonable amount, i.e., a

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7. One koku equals about 10 cubic feet. One 30-year-old cryptomeria (sugi) tree contains about one koku of wood.

report which approximated the limits set by the Plan. Leaders of the FOA also apprently did not pay the required fee to the FOA on the trees they cut.[8]

Harasaki's control over the Ikeda forests meant that his cutting took place in the remote mountainous areas, away from the inhabited part of the community and safe from observation. Consequently, Harasaki was in a good position to report to the FOA only those cutting operations and the volume that he desired. Informants and village residents in general discussed his operations in this respect fairly openly and in detail, the matter being viewed as common knowledge. On one occasion he was reported to have officially listed the price of the trees he purchased at a figure considerably above the actual price, thus permitting Harasaki to pay a low lumber-dealing tax but requiring the seller to pay a larger forest-income tax.[9]

Activities of this kind resulted in considerable criticism of the FOA and its chief officers, but it was acknowledged by everyone that criticism had little effect while Harasaki remained the chief and dominant figure in the organization. Informants stated that Harasaki himself was invulnerable to gossip and largely ignored it. He relied upon his own sense of appropriateness for the control of his actions and dealings and apparently felt he knew how not to "go too far". Moreover, he manipulated the situation in such a way as to keep to a minimum his own personal involvement in deals and power plays; his lieutenants automatically acted in his interests.

The question may be asked, what did others gain from Harasaki's control over forestry? Part of the answer to this question can be found in the ceremonial, ethical, and emotional sanctions in the system itself; namely, the fact that once a system of obligations is functioning, it takes considerable courage and individual action to stop it. But in addition, it was evident that monopolistic domination of the cutting in one area meant that for a time at least there existed assurance of certain basic returns for all. Since the majority of timber cut in Nishiota was bought by the Kaga Construction Co. at a reasonable price, and since this company was a large one with many contracts, a guaranteed steady income was enjoyed by everyone who cooperated with its activities. Moreover, Harasaki distributed incidental rewards and favors whenever practical. During the period of the study he was doing this with government reforestation subsidies, which it was his duty as Chief of the FOA to award to local forest owners.

Business Dealings: the Kaga Construction Co. (KCC)

We have already noted Harasaki's de facto control over this company, an enterprise combining a sawmill, wood products factory, and building

8. In addition to falsification of records, much cutting took place by black market dealers who entered into collusion with the forest owner and arranged with him not to report the sale and felling at all. It was not known definitely if the Harasakis were involved in this type of deal.

9. The lumber dealing tax was imposed on the purchase of the trees and computed on the amount of money paid for the trees. The forest-income tax was imposed on the seller and computed on the same amount. The amount officially reported had to be used in tax computations.

construction facility. A history of the growth of this company will illustrate Harasaki's business methods, as well as certain patterns in Japanese economic development in the wartime and postwar period.

The origins of the company went back to 1944. In this year, one "Tomo Toda", the father of Harasaki's daughter's husband and Chief of the local office of the Prefectural Timber Company[10] purchased a sawmill on the tip that the Army was about to award a contract for the manufacture of knock-down troop barracks. The sawmill was incorporated under the name "Kaga Construction Company". A "Mr. Higashi" of Tokyo was installed as President, and Toda became manager.[11] The contract came through, and the company was awarded a wartime ration of timber from the Prefectural Timber Company. However, the war was about to end, and the Army signified it was no longer interested in the job.

The evidence indicates that the KCC's financial position was in considerable disorder at the time of the Surrender. Much had depended upon the successful implementation of the Army contract, and with the failure of this the company was near collapse. However, after the war contractors were in a favored position, with desperate need for new construction in the bombed-out city areas. At this time Masaru Harasaki, Yoichiro's cousin and a director of the company, emerged as prominent in the company's fortunes. Masaru was not only a director of the KCC but was the president of the "Harasaki Kumi", another construction and contracting firm of Kaga City. This provided an opportunity for combining the resources of the KCC and those of the Kumi.

Masaru seized the opportunity but showed a lack of ability in management. The disorderly finances of the KCC resulted in a general exodus of the other directors and officers, leaving Masaru in control. Masaru used timber belonging to the company, as well as its machinery, to carry out the Kumi's contracts for some 100 houses, awarded to it by the new Government Housing Corporation. This operation was performed openly, and pressure from other businessmen and influential persons of Kaga City forced him out of the directorship of the KCC.

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10. This was a national Government wartime agency. Japanese Government methods of military procurement were often worked out on a decentralized basis. A small central office in Tokyo funnelled orders to local companies, partly financed with Government capital. These companies on the whole were permitted to operate in accordance with local traditions and business methods.

11. It may seem strange that the owner functioned as manager and an outsider as President. This represents standard Japanese business practices. In this case, Toda, the President, was an influential intermediary in the procuring of the contract. Note, also, how the contract was secured: the official representative of the Government procurement agency arranged to handle the contract to his own profit. In Japan this kind of under-the-counter dealing has received far less criticism than in the United States.

At this point the former directors of the company, some of whom retained financial interest in the organization, came to Yoichiro Harasaki and requested him to depose his ambitious relative and take over the presidency of the KCC.

Yoichiro obliged. From this point on the fortunes of the company prospered, aided by Yoichiro's expert management plus the postwar boom in the building industry. To quote an interview, "During this period a wooden shoji that cost about ¥ 100[12] to make would sell for upwards of ¥ 150 at the factory. In such a situation the company became very firmly established." In 1948 Yoichiro transferred the presidency of the company to his first son, "Yosuke", but remained the real power in the organization. Harasaki also arranged to have Mr. Ikeda, the present mayor, hired as a salaried advisor of the company.

It will be noted that the history of this company was entangled in Harasaki's kinship relations. Toda was the father of Harasaki's daughter's husband; Masaru was Harasaki's cousin; and Yosuke, the President, Harasaki's eldest son. Although Harasaki himself was President of the company for only a brief period, his control over its fortunes remained secure. Control was exercised indirectly, through relatives. Informants stated that Harasaki preferred to remain technically outside the company so as to maintain a free hand in buying and selling raw timber and channelling it to whatever local sawmill he wished it to go to.

Business Dealings: the "Ota Timber Company"(OTC)

While Harasaki's operations in the KCC illustrate the principles of indirect control and the spreading of benefits, his activities in the OTC illustrate the technique of judicious concentration of power.

As previously explained, during the war the Government lumber procurement agency would allot contracts for needed jobs to its local branches. These organizations would then contact the local FOA and grant them a cutting privilege (of course, the system worked the other way around as well, and was more or less the case in the founding of the KCC). At the end of the war, many communities were left with unused cut timber and permits for cutting more.

This was the situation in Nishiota. Harasaki, as Chief of the FOA, persuaded other members of the organization to join with him in the founding of a company, the OTC, designed to take advantage of the unused government orders and timbers. The officers of this company were composed exclusively of FOA members, their relatives, and former employees of the Prefectural Timber Company. One of the last official acts of the Prefectural Timber Company, under Harasaki's relative, Toda, was to authorize the OTC to cut a large amount of timber in the stands purchased under Government order. The owners of most of these stands wanted to cancel the contracts and even return most of the money paid for them, but the OTC insisted that the Government orders must be honored.

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12. 100 yen equals 36 cents.

The OTC made a 100 percent profit on its timber cuttings. This was due to the fact that the selling price for the trees in the postwar construction boom was many times the price paid for them under wartime price regulations. In spite of this large profit, the OTC was immediately disbanded, resulting in the closing of six sawmills in Nishiota and loss of jobs for about 100 workers.

Why was this company disbanded? The public reasons were heavy taxation and excessive operating expenses. Perhaps more important was the fact that Harasaki by this time had begun operations in the KCC, and he wished to concentrate his activities in this single organization and its combined operations. If the OTC had continued, it might have become a serious competitor. Moreover, the OTC venture had certain clearly illegal features (the national Government had declared the wartime contracts void in most circumstances). Some informants stated that the OTC served the purpose of embroiling most of the larger forest owners in the locality in a shady business deal, thus ensuring Harasaki of their support in other activities.

During the brief span of life of the OTC, a number of incidents occurred which shed further light on the techniques used by Harasaki in establishing his dominant position. One of these incidents may be summarized:

A timber dealer from a neighboring community purchased a small stand of trees in Nishiota through the cooperation of a Nishiota dealer, "K. Ashida", who was a member of Harasaki's circle. The morning the trees were to be cut, the Nishiota lumbermen hired for the job failed to appear, and the purchasing dealer was informed by Ashida that he could not expect to harvest his trees, because his purchase did not meet with the approval of certain local people. He was then offered by the OTC, and accepted, the full purchase price for the stand.

The following circumstances lay behind this incident: first of all, the outside dealer had failed to approach Harasaki first with his desire to purchase timber in the community. Outside deals could be made, but it was necessary to do this by asking permission of the local boss and going through the usual Japanese sake-drinking ceremony. Secondly, the deal was planned and arranged by Ashida, the local timber dealer, who acted without Harasaki's knowledge or permission. Liquidation of the deal thus became a means of disciplining Ashida, who was known to harbor a desire to break away from Harasaki's control. Finally, the tract purchased was among the stands assigned to the OTC out of the old wartime contracts, and if the deal had gone through, others may have followed, thus jeopardizing the operation. The incident thus was crucial to a number of important phases of the boss' power position.

Control of the Labor Force

In the postwar period, nearly two-thirds of all trees lumbered in Nishiota were handled by companies under Harasaki's control or influence. Thus a majority of the lumbermen and sawmill workers in the community were employees of Harasaki or his associates. By 1950, nearly all outside timber dealers had ceased buying trees in Nishiota, so virtually all the forest and wood workers in the community were under the control of the boss and

his henchmen. There were 250 men in the employ of the KCC alone; another 750 in other organizations.

Interviews with Nishiota lumbermen established the fact that those devoting full time to forestry worked an average of 20 days a month during the year preceding the study--a good average in the lumber industry. Others worked part-time, sharing their lumbering with other occupations. KCC employees stated that while the pay was low as compared to that in other communities, employment was more regular. One lumberman directly employed by Harasaki in his capacity as timber dealer stated,

> I am a regular employee and a follower of a big lumber dealer, so I don't have to worry about my job. Temporary employees have to worry about employment.[13]

The lumbermen were asked why there existed no lumbermen's labor union in Nishiota village. One explained,

> We don't have a labor union in our village. If anyone tries to start one, or even discuss it, they are looked at as nothing but Reds. As for myself, I simply don't see any necessity for one. I am on very close terms with my boss ("oyabun"), Mr. Harasaki, and he takes very good care of my family.

This man's approval was of special interest, since his brother died in a lumbering accident while working for Harasaki.[14]

Another kind of evidence of Harasaki's concern for his worker's interests came from a hostile source, the operator of a charcoal kiln living in another village:

> Workers can't possibly have a labor union in Nishiota. That oyabun there is too powerful and unreasonable. Once I remember they had a baseball game between Mr. Harasaki's workers and the team of another company. Mr. Harasaki thought about nothing but winning the game. The umpire made a fair judgment on a play which went against Mr. Harasaki's team, but Mr. Harasaki got angry and made the umpire go back on his decision. All he thought about was his own team winning. He is that unreasonable and dictatorial.

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13. The first sentence is a free translation of Japanese, "...okina yamashi ni tsuite irukara, shimpai wa nai." The phrase ni tsuite expresses a relationship of leader and follower, plus the idea of mutual dependency. Thus the concept of mutual obligation in the employer-employee relationship is brought out.

14. These favorable comments do not mean that all workers loved their boss. On the contrary, much evidence of dislike on the part of workers was found. However, even those workers who disliked Harasaki acknowledged that he kept them supplied with jobs and performed numerous services for them and their families.

This incident (actually more details were given, but the above statement will serve) revealed much about Harasaki's personality and mode of operation. His dictatorial character, bursting forth occasionally with fits of anger which led to decisions based on force, and combined with a fierce sense of loyalty and obligation to his followers, is sharply drawn. As one of the researchers observed, "This incident reveals one of the mechanisms which drives any oya-bun to work for the benefit of the people under his patronage."[15]

Like other bosses, Harasaki extended to his laborers services beyond jobs and salary. He indemnified them in the event of an accident, awarded special bonuses, and helped finance illnesses, weddings, and other emergencies. In return, they were expected to perform odd jobs around his house and otherwise assist in his personal affairs.

III. The Pattern of Power: Techniques and Limitations

In the previous sections the background, business activities, and methods of dealing typical of the boss have been described. Some generalizations follow:

Techniques of Acquiring and Retaining Power

Harasaki's approach to the problem of power may be described succinctly as a combination of sharp, materialistic business methods, sometimes verging on the illegal, with traditional Japanese rules for the maintenance of interpersonal relationships.

Thus, his manipulations in the wartime FOA, the Ota Timber Company episode, and his success in "freezing out" timber dealers from other localities were all instances of ruthless business procedure, sometimes slightly illegal or extra-legal, but usually within the letter of the law. His objectives were direct and explicit, and he was apparently willing to use almost any means available within a certain limit to accomplish them.

With such business methods went a reliance upon, and utilization of, certain traditional modes of interpersonal relationship in Japanese society. From Harasaki's standpoint, the system of reciprocal obligation was in part a conscious selection of a method to accumulate and maintain power; in part an unconscious development of impulses and motivations characteristic of Japanese society. Harasaki at times deliberately cultivated obligations, and at other times simply behaved according to "sincere" motives. Thus he was finicky about ritual and ceremony, insisting on the usual exchanges of sake and formalized speeches when deals were consummated, probably feeling that

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15. In the case of the outside dealer who attempted to buy stands of timber in Nishiota, it was noted that the lumbermen hired for the job failed to appear at the site. It was found that they had been transferred to another lumbering operation on a stand of trees owned by the OTC. Harasaki thus prevented the deal but saw to it that the lumbermen involved secured employment.

such was due him not only because of his superior status but also because it was the "proper" way of doing things. He utilized his connection with Mr. Ikeda most advantageously, but also was personally proud of his close relationship with the inheritor of the centuries of sacred prestige surrounding the Hanagamori Shrine. He exploited workers, but fiercely defended their interests in baseball games.

There was, first of all, the use of relatives to build up a group of reliable henchmen and followers. In Harasaki's domain, relatives were found occupying many of the key posts. In Japan, as elsewhere, power can be accumulated by degrees through the appointment of relatives to positions of importance and influence, and subsequently power can be "kept in the family" once it has been achieved. Relatives can be relied upon to carry out one's bidding and to act in one's interest without being told. A relative, to a degree greater than non-relatives, must abide by the rules of giri (obligation).

The use of favors rendered to keep others in obligation to oneself was also used by Harasaki in an effective manner. The scope of his operations was such that everyone connected with the timber industry in Nishiota who cooperated with him could expect to receive a fairly steady income. His friends and associates could expect to receive special favors, like government subsidies, or Harasaki's help in evasion of taxes. Thus, the growth of his influence and control roughly correlated with the magnitude of favors rendered. Within certain limits, the more he granted, the more he acquired, and vice versa. However, returns for his favors were not given freely in all cases. Many people disliked him, and many felt that he did them more harm than good in the long run. But the threat of economic sanctions, which Harasaki could employ if necessary, and the general institutional-ethical sanctions ("you just don't violate giri") were sufficiently strong to keep the system operating effectively.

In return for favors rendered, Harasaki expected obedience, loyalty, and action in his own interest. A timber dealer had to buy only the stands designated by Harasaki or a lieutenant; a worker had to work only on Harasaki lumbering operations; a forest owner had to sell only to Harasaki dealers. Moreover, persons within the system of obligations were expected to act in Harasaki's interest, whether or not he gave orders. There was an expectation on Harasaki's part that his henchmen and followers would so identify themselves with Harasaki and his interests that they would act voluntarily in accordance with the system.[16] Of course, mistakes were made, and individuals from time to time attempted to make their own deals and acquire their own power.

Obviously, then, not everyone had to report directly to Mr. Harasaki. The Japanese "oyabun" should not be seen as a dictator with absolute power

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16. The shadow of so-called "feudal" relationship patterns appears here. Similar identification and loyalty patterns, and reciprocal services, were to be found in lord-vassal relationships in earlier times. However, the "feudal" character of these Japanese patterns should not be overstressed. It is equally meaningful to call it "familism"--which suggests that the relationships between parties in the system have an implicit model in the relationships between members of the Japanese family, particularly between father and son and between brothers.

and downtrodden mass of followers. On the contrary, he occupies a kind of central position in a complex hierarchical and overlapping system of control, with each sphere of control having its own pattern of obligation and hierarchy. Harasaki's lieutenants were bosses in their own right, with their own lieutenants and their own followers. Such a man was Ashida, the temporary rebel, and likewise Tosaku Maeda, Harasaki's lieutenant in the FOA. Masaru Harasaki was in some respects a lieutenant of Yoichiro's, but he had become sufficiently powerful and independent to begin the process of splitting away from Yoichiro and becoming a kind of rival boss of equal status. The mayor, Mr. Ikeda, had a special role. He was an equal, a patron, and friend, but had little to do with Harasaki's business affairs. Harasaki derived reflected prestige from the connection.

Harasaki's system of control resulted in the development of a clique of powerful individuals who dominated the entire forestry economy of the community, from the FOA down to the workers. This clique also had a considerable amount of control over the political structure of the community, through domination of the community office. Harasaki himself held political jobs.

Limitations of Harasaki's Power

The preceding analysis may give the impression that the boss' power is virtually absolute, cannot be broken, and is guarded by more or less foolproof defenses. This impression is misleading, and it is necessary to show some of the limitations and weaknesses of Harasaki's position.

In the first place, there existed at the time of the study certain basic geographical limits to his sphere of control. He was a resident of an upstream hamlet and could therefore personally observe all lumbering operations in that locality. The majority of his closest followers lived there also. His control in this area was absolute, but it waned downstream, where supervision of forestry was less convenient and where henchmen were more difficult to retain.

Within the city of Kaga, Yoichiro had little power. He was not prominent in city affairs and was not a member of civic and economic organizations. The KCC plant, although located in Kaga, did not thereby entitle him to a position of influence. There is evidence that the prominent timber men of Kaga regarded him as a kind of offensive rural upstart.

Secondly, Harasaki's sphere of influence was confined to forestry and did not extend to other local industries. He did not control, nor attempt to do so, affairs of the farming, hemp-raising, stonecutting, and other industries of the community. He was a director of the Agricultural Cooperative Association, but informants stated that while he used information he received in this job, he did not attempt to meddle with the affairs of the farmers. One informant stated, "If he tried to interfere, the big farmers would really attack him. They know all about his dealings."[17]

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17. Since the majority of "big farmers" of Nishiota (those with about one cho of land) are also forest owners, this statement does not quite ring true. However, other informants pointed out that most of the farmer-forest owners were located in the downstream area where Harasaki was less influential. It appears that his power belongs in the upstream area where forest owners owned little farmland.

The above limitations are based on the particular ecological situation. Those to follow are based on the nature of his techniques of power accumulation and maintenance:

Since the Japanese system of obligation and familial relationships is, in varying degrees, a system of reciprocity, Harasaki was required to give as well as receive. Magnanimity and noblesse oblige are mandatory. In the long run, he could receive more than he gave, but the point is that he could not afford to withhold extensively or for long. As pointed out in the preceding sections, he had to see to it that those who were under obligation to him also had to be rewarded for their obedience and loyalty. Substantially, the rewards were, for workers, a regular if not high income, a steady job, and help in family emergencies. For business associates, rewards lay in profitable dealings and incidental favors of all kinds.

Now, the reciprocal character of the system meant that there was no absolute power within it. Harasaki could expect challenges to his regime, as occurred in the case of Ashida. Yoichiro also shared some power with Masaru. And if he had lost the friendship and support of Ikeda, he could have a difficult time indeed. In Ikeda's case, there existed rumors of estrangement. Harasaki provided Ikeda with good profits and excellent management of his forests, but Ikeda could decide he could no longer stomach the dealings of his agent.

There are also limits to the use of ruthless business methods. If he exerted force, Harasaki in a sense would place himself in a position of confessing that the reciprocal system of obligations had broken down. That is, he could not get people to do what he wanted them to do by the expectable rewards and consequently would have to use force. Other things being equal, the more ruthless his methods became, and the more force he used, the weaker his position. In some respects, he had already reached this position. The conclusions of one member of the field research staff are illuminating: "He is hated now not only by the timber dealers in Kaga, but also by many villagers. At this time, however, nobody has sufficient power to challenge him. Since he has extended his circle to include large numbers of workers and small business men, as well as the most influential people in forestry, open criticism is hazardous, to say the least. But he is disliked."

A Kaga City timber dealer, speaking of bosses and sharp business operators in general, commented:

> To be a good businessman--I mean one who is always successful--you need to be respected. You need to exercise ninjo--it's really a matter of ninjo. You have to combine good business sense with human feelings, that's the way. Now these people who don't use ninjo [warm, friendly, human understanding] in their business, and there are some around here, just won't last long. [18]

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18. The term "ninjo" is used here rather freely and colloquially to refer to the "noblesse oblige", "magnanimity" aspect of the reciprocal system of obligations. That is, the business man is supposed to effect a combination of self-interest with consideration (ninjo) for the opposite member of the deal, particularly when he has some kind of advantage over the other. This meaning of "ninjo" is common in Japanese parlance.

Finally, Harasaki's very prominence in the civic affairs of the village constituted a limitation on his exercise of power. His responsibilities as ex-mayor, present postmaster, and Chief of the FOA meant that he could not afford to operate too openly or strenuously, because his enemies could attack him legally. Thus, there existed a loophole which some aspiring new boss might take advantage of to maneuver Harasaki into a position where he dared not interfere too openly. He depended upon others to act in his interests; it was risky to order his followers to carry out such things as preventing by force the buying of timbers by outside timber dealers. As long as it was advantageous to stay in his favor, other dealers and owners would exclude outsiders. Once this was no longer advantageous, or if a rival wished to begin an attack, the boss' prominence could become a liability.

IV. Boss-Henchman Systems and Economic Development

During World War II, the Japanese Government mobilized its timber resources by the financing of local companies who were permitted to operate in accordance with local standards. Timber procurement was not managed by a large-scale national organization, but rather by local forest owners and timber dealers, acting in the name of the Government. This localism has been a marked characteristic of Japanese economic development and activity for a very long time. It involves an informal chain of command from the national to the local level, which often operates with a minimum amount of bureaucratic control. Thus the informal social system, with its web-like fabric, extending via kinship, ritual or simulated kinship, and chains of obligations through the whole nation, can be efficiently mobilized for national purposes. The aspect of this system which may be ambiguous to Western habits of thought lies in the combination of business efficiency with highly traditional and paternalistic methods of social control.

The boss-henchman system described in this paper illustrates this combination of "incompatible" (from the Western viewpoint) elements. It is especially noteworthy that the boss system reached its full flower in the post-war period, when unusual pressures for timber, plus a swollen local population, cried out for a structuring, an organization of the local forestry economy which would result in greater predictability. Yet the "rationality" of the system achieved was made possible by the concession made to traditional values, and to the fostering, under paternalistic protection, of many small operators. The "boss" was an efficient, innovating entrepreneur in the economic sphere and a traditional paternalist in the social sphere.

Theories of economic development often use a model of the change process which involves the conception of a unilineal movement away from "pre-industrial" or familistic patterns of organization, to the impersonal, universalistic industrial system. Taking the development of urban heavy industry in Japan as the frame of reference, this model of change is generally appropriate.

A more technical meaning assigned to ninjo is found in Ruth Benedict, Chrysanthemum and the Sword, and is also used by a group of Japanese social scientists who have made analyses of Japanese character similar to Benedict's. This meaning holds ninjo to be the human considerations, the human feelings, which get in the way of duty and obligation and create severe conflict (e.g., kabuki themes).

However, in the smaller industries; in industries with large numbers of unskilled workers or recent in-migrants; and in provincial business and industry in general, the model does not apply. In these contexts, the Japanese economy continues to display familistic and traditionalistic social patterns and is able to blend them with standard commercial and business methods. Actually, boss systems, as one type, appear to be stronger in the contemporary period of Japan's triumphant industrialization than they have been in the recent past.[19] Perhaps models of change which assume that given forms of social organization are inevitably associated with given stages of economic development should be modified by a more realistic understanding of social organization as a means to an end.

A major reason for the persistence of these traditionalistic or "familistic" patterns is the favorable attitude with which they have been viewed by the Japanese Government. In calling upon them in periods of crisis as a means for achieving economic goals, the Government has sanctioned their importance in Japanese society. Indeed, throughout the 90 years of Japan's modernization, a "conservative" position[20] on planned change has predominated: a position which has seen Japan's traditional cultural ideologies as necessary for the successful introduction of modern organization structure. Until a frontal attack is made upon these patterns as an undesirable ideology, little change can be expected. And so long as these systems remain a relatively efficient means of meeting the needs of a large population with little capital, there would appear to be no particular mandate for the attack.

Yet a dilemma exists in this situation. We have documented the ways in which the boss system evaded various indirect devices established by the Government in order to control the cutting and price of timber. These devices were instituted by the Japanese Government in order to help prevent overcutting of forests in the period of reconstruction and also during the war. However, so long as localism flourishes, and so long as this takes the form of a boss system, indirect means of control will not work. (In the postwar period some of these devices were accompanied by an appeal to universalistic, legalistic ideology, but not to any important degree.) Thus, on the one hand, the Government desires to bring the local forest economy under control for

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19. Similar observations hold for the oyabun-kobun system. This system, with its traditional rituals and simulated kinship patterns, seems to flourish in periods of economic dislocation; thus in the early Occupation period such organizations may have reached an all-time high in Japanese history. As for the zaibatsu system, recent evidence indicates that as a device for the reconsolidation of economic control after the "deconcentration" experiments of the Occupation, these organizations are going back toward family and kinship control. We say "back toward" because previous to World War II the larger zaibatsu companies had been steadily moving away from nepotic practices.

20. See J. W. Bennett and Robert K. McKnight, "Approaches of the Japanese Innovator to Cultural and Technical Change", Annals, 305, pp. 101-113, 1956.

national conservation purposes; on the other, it must rely upon the local socio-economic systems for protection of a large population which a shortage of capital leaves without adequate security. There is also the issue of cooperation: in a marginal economic situation, the independent entrepreneur system can be wasteful and dangerous, unless it takes the form of paternalism or contains the spirit of noblesse oblige. Yet these very patterns, from the national viewpoint, become another form of "independent action" detrimental to the larger community in other ways. This is the basic dilemma of social and economic development in Japan, as it is, to an even larger extent, in most of the new nations with large and growing populations.

THE ECONOMIC DYNAMICS OF JOSEPH SCHUMPETER*

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I. Introduction

Among the economists who worked within the pale of Classical and Neo-Classical orthodoxy, Joseph Schumpeter holds a unique position. He was the first of them to suggest that capitalism faces a regular process of fluctuating change which is generated by factors necessarily associated with the economy of capitalism.

The Classical economists, it is true, recognized that there were factors falling properly within their concern which could affect the (dynamic) equilibrium of the economic system, but they believed that these factors were erratic, temporary exceptions to the rule; that the economy tended either toward the stationary state or the state of steady secular change.

Aside from such heterodox figures as the Marxists, Hobson, Veblen, Commons, and Mitchell, most later economists narrowed the scope of concern of the economist. Although it was recognized that a state of dynamic equilibrium was not likely to be reached, it nevertheless represented a true equilibrium condition for the economy, and its unattainability was regarded as a consequence of a variety of essentially exogenous interferences with the economic process, not subject to analysis by economists.

Schumpeter, on the other hand, though he employed this steady state in his analysis, used it as a first crude model, rapidly elaborated, rather than as an equilibrium position with normative aspects, and went on to deny the existence of a static equilibrium.

This notion of the inherent instability of the static capitalist structure as conceived of by economic orthodoxy has been raised again by another member of the orthodox, but in an entirely different form, many years later. On this occasion it was Keynes, in his General Theory; the approach here is very different from that of Schumpeter, however. Whereas Schumpeter suggested that the economic processes of the capitalist economy, and the pressures to maximize profits, of necessity engendered innovation, and that this in turn

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* I am grateful to a number of colleagues for constructive remarks they have made, but most particularly to Boris P. Pesek, who has taken special pains in reading and discussing this paper with me, and to Martin Bronfenbrenner, who has made a number of substantive and stylistic suggestions. It is needless to add that any errors are my own.

necessarily undermined the stability of the stationary state; Keynes suggested that Say's Law of Markets did not always automatically operate in the very short run. Keynes' approach was macrostatic, whereas Schumpeter's was micro-dynamic. Furthermore, the Keynesian concern, in fact not too different morphologically in this respect from the Hobsonian, raised questions about the inherent stability of capitalism in terms of non-full employment values of crucial economic variables. The suggestion is always present that, given the proper values, stability can come about at full employment. Thus, the question of instability is raised in the sense of a strong possibility rather than a necessity. Schumpeter alone, among the orthodox, suggests that structural instability must necessarily flow out of the processes of capitalism.

The assertion has been made repeatedly here that Schumpeter was clearly representative of orthodoxy in theoretical economic thought. It behooves me to justify this assertion in some detail. At the same time, I shall attempt to clarify the roots of Schumpeter's thought.

Specifically, I suggest that Schumpeter is most directly indebted to the Austrian School: Menger, Wieser, and Böhm-Bawerk, particularly Menger and Böhm-Bawerk. In one sense this is so obvious that one might say that it is pointless to undertake this examination. Schumpeter was a student of Böhm-Bawerk's. It is obvious that he is in some sense derivative of him. However, my concern is not with this historical fact but rather with the analytical content of Schumpeter's system. I believe that it can be demonstrated that certain crucial aspects of Schumpeter's system derive more directly from Menger and Böhm-Bawerk, than from any other writer of the Neo-Classical Schools.

II. The Orthodoxy of the Circular Flow

Schumpeter's concern throughout most of his writings in economics is with the process of economic change. Logically enough, though, he begins by describing a non-changing system in which free competition prevails, the system in which exists what he calls the circular flow. This is essentially the classical stationary state, a situation in which (inverting Schumpeter's description of economic change)[1] at different dates the same kinds, quantities, and qualities of goods are being produced and sold at the same costs and prices.

In this stationary state, production is carried on on the basis of the experiences of the producer and his fellows as well as his predecessors which have taught them how best to pursue their interests and how to appraise the circumstances in which they find themselves in order to be most successful. The very regularity of this economy assists them in their appraisal.[2]

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1. J. A. Schumpeter, Business Cycles, New York, 1939, p. 72.

2. Schumpeter, The Theory of Economic Development, Cambridge [Mass.], 1934 (hereafter referred to as Economic Development), p. 6.

Moreover, this economy is characterized by certainty in all sectors. For every supply there is waiting a demand. Prices are stable. "The circular flow of economic life is closed."[3] In Schumpeter's stationary state goods and services are distributed so that, for each consumer, at the margin each good is of equal importance in all its uses. The prices of productive services are equal to their marginal productivities. Finally, this economy is characterized by an absence of profits, since marginal productivity payments exhaust the product exactly.[4]

Although this by no means exhausts the attributes of Schumpeter's circular flow, it is quite clear that the central core of Neo-Classical orthodoxy is present here. This static economy bears all the earmarks of the static economy of J. B. Clark, of Wicksell, of Menger, of Marshall. When the circular flow is examined in greater detail, it becomes possible to point out that in certain important particulars this system is Austrian and not representative of the approaches of other branches of the Neo-Classical School. In the following section we propose to pursue this matter.

III. The Austrian Roots of Schumpeter's Thought

A. Theory of Production

The analysis of production employed by Schumpeter is based on the conception of the combination of labor, "gifts of nature", and intermediate goods of "various orders". By tracing down the process of production of these intermediate goods, Schumpeter satisfies himself, in a fashion which is identical with the reasoning of Menger and Böhm-Bawerk and with identical consequences, that all production is based ultimately upon the combination of labor and gifts of nature. The apparatus Schumpeter employs in reaching this conclusion involves the notion of goods of various orders with the flexibility of the production process increasing as higher order goods become more and more important in production. This analysis of the productive process is not merely that employed by the Austrians, but it is unique with them.

For Menger and Böhm-Bawerk the virtue of this analysis lay in the ease with which they could lay bare what seemed to them to be the roots of economic progress. Menger takes issue with Smith:

> If...a people progressively directs goods of ever higher orders to the satisfaction of its needs, and especially if each step in this direction is accompanied by an appropriate division of labor, we shall doubtless observe that progress in welfare which Adam Smith was disposed to attribute exclusively to the latter factor...The further mankind progresses in this direction, the more varied become the kinds of goods, the more

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3. Economic Development, p. 8.

4. Ibid., pp. 24, 26, 31. It is of interest to note that Schumpeter arrives at this particular point via the route of Austrian imputation which is due to Menger.

> varied, consequently, the occupations, and the more necessary and economic also the progressive division of labor. But it is evident that the increase in the consumption goods at human disposal is not the exclusive effect of the division of labor... Correctly, it should be regarded as only one factor among the great influences that lead mankind from barbarism and misery to civilization and wealth. [5]

Böhm-Bawerk showed somewhat less restraint and committed himself to the position that as between more roundabout and less roundabout productive processes, the latter always yield a lesser, or no greater, product with a given labor input. [6]

It is of interest to note, in separating this approach from that of the English School, that Marshall disagreed quite strongly with such statements. Marshall took issue with Böhm-Bawerk, stating that many roundabout processes are not productive and, hence, are not used. Marshall replaces roundaboutness with interest. Interest must be paid and can be gained by the productive use of capital. Therefore, roundabout methods are avoided unless they are more profitable. [7]

Clearly Böhm-Bawerk was carried away and made rather sweeping statements which carried the implication that any roundabout process is of necessity more productive than any direct process. However, Marshall, in his zeal to defend Smith and Ricardo, left some chinks in his own armor. The fact seems to be that in more developed economies, roundaboutness plays a much more important role, relatively (not to say absolutely), than in less developed ones. How can this be accounted for in economic terms unless it is agreed that roundaboutness tends to have intrinsic technical merit in production?

Menger puts his finger on one aspect of this intrinsic merit by pointing out that in less roundabout economies, consumption goods tend more often to be available in quantities independent of human desires, and dependent, rather, on accidents of nature. On the other hand, in more roundabout economies, the degree of control which humans can exercise over the final bill of goods is much greater. Through greater understanding of economic and technological relations, and through increased roundaboutness, the degree of this control is increased. [8]

Schumpeter, employing similar logic, points to the increased flexibility afforded a roundabout economy because of the greater generality of higher order goods. This greater generality is best expressed in terms of the greater

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5. Karl Menger, Principles of Economics, J. Dingwall and B. F. Hoselitz, transls., Glencoe, Ill., 1950, p. 73.

6. Eugen von Böhm-Bawerk, The Positive Theory of Capital, W. A. Smart, transl., London, 1891, p. 19.

7. Alfred Marshall, Principles of Economics, 8th ed., London, 1920, p. 583, fn. 1.

8. Menger, op. cit., p. 74.

variety of final products (first order goods) which can result from the employment of a given number (of varieties) of high order goods than from the employment of the same number of varieties of intermediate order goods. Thus, an economy which is more roundabout is in a better position to face change of all sorts than is a less roundabout economy.[9]

B. Capital Theory

It is rather interesting to note that although Schumpeter's analysis of the process of production, his treatment of the role of roundaboutness in this process, his reliance on "goods of higher orders", and his reduction of all productive factors ultimately to labor and land are virtually indistinguishable from the treatment of Menger and Böhm-Bawerk in broad outlines and differ in detail primarily in greater rigor and subtlety of thought, yet on a most fundamental point Schumpeter moves off in a direction which is quite different from any followed by most earlier economists. In Schumpeter's circular flow there is literally no role played by capital. This is due, in part, to Schumpeter's redefinition of capital:

> Capital is nothing but the lever by which the entrepreneur subjects to his control the concrete goods which he needs, nothing but a means of diverting the factors of production to new uses, or of dictating a new direction to production.[10]

But in Schumpeter's circular flow there is no entrepreneur in the sense in which he uses the term.[11] Moreover, there are no new uses of factors or new directions of production. Hence, there is here no function for capital.

This, in itself, is most significant, for in Schumpeter's system capital is not a factor of production; it is not a particular collection of goods or services; it is not the value of a particular set of factors of production or of goods or services; it is not even the generalized services of money. Schumpeter's capital is not what it is in the system of any economist who was a predecessor of Schumpeter's, nor for that matter of almost any economist who was a contemporary or who has followed him. For Schumpeter, capital is a role rather than a thing. It is a particular role which, in a capitalist economy, is played by a sum of money put to use in a particular fashion. The amount of capital is defined by the sum of money which could have been put to that use. A sum of money which could have been put to that use, but was not, is not capital. This is stated most explicitly in several ways by him.[12]

Thus, if capital is merely a function, and if in the circular flow there is no place for this function, then in the circular flow there is no capital, in

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9. Economic Development, p. 17.

10. Ibid., p. 116 (italics Schumpeter's).

11. Ibid., p. 76.

12. Ibid., pp. 115-118.

Schumpeter's sense of the term. In order for the implications of this to be seen with greatest clarity, it is first necessary to go into greater detail about just what is the nature of capital according to Schumpeter.

In Schumpeterian development theory the role which is played by funds whose value define the value of capital is this: they dilute the purchasing power of the producer who is producing as if he were in the circular flow. That is, the routine producer is producing a commodity which has been and is being produced in a fashion which has prevailed for some time. The demand for this good has been and continues to be steady and reliable. There is nothing about the behavior of this producer which is not customary. In the process of producing his output, this producer and those like him are constantly demanding and consuming, in the act of production, labor, land, and "goods of various orders". In the circular flow the regular demand of these traditional producers absorbs all that is available of these factors of production. If, now, an innovating entrepreneur appears and wishes to engage in a new form of production, it becomes necessary for him to interfere with this closed flow of productive factors. It is with capital that he does this. His demand for these factors is added to the former demand, the price level of these factors rises, and, by virtue of the distortion of the distribution of purchasing power as compared with the earlier situation, he is able to command some quantity of these factors which in his absence would have gone into the circular flow.[13] Throughout, it is understood that tastes and consumption patterns as well as technology do not change elsewhere in the economy.

Thus Schumpeter's definition of capital is quite different from that of Böhm-Bawerk. Böhm-Bawerk defines capital as a group of products which are a means to the acquisition of goods. He distinguishes social capital as a particular form; its peculiar character is that it is a group of products which are a means to the production of goods. That is, while capital in general is a group of goods, they are not necessarily directly involved in the act of production but may represent value which can be traded for such goods. On the other hand, social capital consists only of intermediates.[14] In another place, Böhm-Bawerk

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13. It should be obvious to the reader that the circular flow is not the only situation in which capital has no place. Any non-market economy would be equally void of such a role, but for a different reason. The capital-function as described above requires a market in which to operate. In a non-market economy, depending on the particular variety, this function must be played by other instruments. In a centrally administered non-market economy, this process of re-allocation of productive factors away from the customary channels would be played by the warrants of the central allocating agency. In an individualistic non-market economy, some arrangements might arise between the owners of factors of production and the entrepreneur which involve the exchange of some debt instrument for the use of the factors. However, this smacks of money and would undoubtedly lead to its use. In the absence of such arrangements, the capital function could not be fulfilled.

14. Böhm-Bawerk, op. cit., p. 38.

muddies the water by stating that capital is "...nothing else than an aggregate of consumption goods in a transition state..."[15]

While Schumpeter and Böhm-Bawerk diverge on this point, it is of interest to note that Schumpeter and Menger are in substantial agreement. Menger states that capital is "...command of quantities of economic goods of higher order."[16] Moreover, Menger dissociates himself quite clearly from those who define capital in technical rather than economic terms. It is the command over the higher order goods, rather than the higher order goods themselves, which defines capital for him. He then turns and berates those who define capital in technical rather than economic terms, but in so sweeping a fashion as to include all items of wealth which yield a permanent income.[17]

It would appear then that with respect to this matter there is a clear line from Menger to Schumpeter. Schumpeter's definition of capital is narrower than Menger's, but the key to the matter is to be found in Menger's reference

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15. Böhm-Bawerk, op. cit., p. 93. It is of interest to note here that in argument subsequent to this point (pp. 94-96), Böhm-Bawerk seems to be saying that the most important aspect of capital in production is its performance of the wages-fund function. George J. Stigler (Theories of Production and Distribution, New York, 1941, p. 219) comes to a similar conclusion regarding Böhm-Bawerk's meaning.

16. Menger, op. cit., p. 155.

17. "[The] most frequent mistake that is made not only in the classification but also in the definition of capital, consists in the stress laid on the technical instead of the economic standpoint... The classification of goods into means of production and consumption goods (goods of higher order and goods of first order) is scientifically justified, but does not coincide with a classification of wealth into capital and non-capital. The opinion of those who use the term 'capital' to refer to all the items of wealth that yield a permanent income seems to me to be equally untenable. For if the concept of wealth is stretched to include labor power, and if the concept of income is extended to include the services of consumption goods to their owners,... a consistent extension of this doctrine leads one to the proposition that labor power,... land,... and finally also all consumption goods of any durability... must all be called capital. (Op. cit., p. 303.) The most important difference between capital on the one hand and items of wealth that yield an income ...on the other is that the latter are concrete durable goods... whereas... [the productivity of capital]... is of an essentially different nature than that of durable wealth that is not capital... [Capital is frequently] interpreted in ordinary life as a sum of money. It is plain that this concept of capital is much too narrow, and that a particular form of capital has been elevated to the status of the genus itself. On the other hand, the opposite error has been made by those who do not regard money capital as true capital at all, but only as representing it. The first of the two views is analogous to that of the mercantilists who regarded only money as 'wealth' while the latter view is that of a number of opponents of mercantilism who have gone too far in their opposition ..." Ibid., p. 304.

to "command of quantities of economic goods". There can be no question that, since he admits money as a form of capital, the link between money and this "command" is very similar to the definition given by Schumpeter. Moreover, Menger's insistence that capital is an economic rather than a technical notion separates him from Böhm-Bawerk. For Böhm-Bawerk it is not clear into which category capital falls. At least one thoughtful scholar has said that in Böhm-Bawerk's capital theory there is "...utter confusion of technical with economic considerations..."[18]

Schumpeter is as far or farther from other Neo-Classical economists. Marshall states that the only strictly logical position is one which identifies capital with wealth. J. B. Clark states that capital "consists of instruments of production, and these are always concrete and material." Wieser states that capital consists of perishable material goods, not including the means of subsistence of laborers. Jevons and Böhm-Bawerk are in substantial agreement, as also was Wicksell. For Wicksteed, capital consisted of a stock of producers' goods. Walras' notion of capital was somewhat more extensive but quite similar to that of Wicksteed.[19] Thus, we see that of all the great Neo-Classical economists, Schumpeter, in respect to this matter, was clearly linked only with Menger and was in no sense indebted to any of the other Neo-Classicals mentioned above.

What is gained by this sharp departure from tradition? It seems that there are gains, even from the break with Menger, small as it may seem in comparison with the breach which lies between Schumpeter and the others.

Actually, there are in capital theory a number of pitfalls that await the unwary theorist. These pitfalls claimed their share of victims among the Neo-Classical economists. It seems to me that Schumpeter's very unusual construction of capital theory has the virtue that in resting on Menger's work it avoids many of these pitfalls--these same pitfalls which Menger was able to avoid--and at the same time enables Schumpeter to construct with these unusual conceptions a theory of economic change which relies on no other agencies but profit maximization and innovation for motivating the processes.

Such a pitfall is the following: Is capital a monetary or a real form? If capital is regarded as primarily a real form, there are several difficulties which crop up. For one thing, there is the difference between capital as seen from the viewpoint of the production process and capital as seen from the viewpoint of the investor. Böhm-Bawerk evades this problem, not very satisfactorily, by talking of two basic varieties of capital. Thus he implies that there

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18. Stigler, op. cit., p. 198.

19. See Marshall, op. cit., p. 786; J. B. Clark, The Distribution of Wealth, New York, 1899, p. 116; Friedrich von Wieser, Natural Value, C. A. Mallock, transl., London, 1893, pp. 124-125; W. S. Jevons, Theory of Political Economy, 4th ed., London, 1911, p. 223; K. Wicksell, Lectures on Political Economy, London, 1934, pp. 146-147; P. H. Wicksteed, Commonsense of Political Economy, London, 1933, p. 753; and L. Walras, Elements of Pure Economics, William Jaffe, transl., Homewood, Ill., 1954, p. 212.

is a difference between these two, that one is a real form and the other is a monetary one. Yet, Schumpeter regards this as a vacuous distinction, for by defining capital as he has, it is true that:

> There is, therefore, in our sense really only private and no "social" capital. Means of payment can only perform their capital role in the hands of private individuals.[20]

Of course, this avoids the problem of capital in a non-individualist economy, but in such an economy, according Schumpeter's definition, there is no capital anyway. Böhm-Bawerk has not clarified the situation by insisting on this distinction, and it seems clear that the distinction is a consequence of the insistence on making capital a real form wherever possible.

Another difficulty which Schumpeter avoids is the question raised by Menger in the quotations given in footnote 17. The matter at issue is the distinction between the technical and the economic roles of capital. Böhm-Bawerk's definition would make no distinction between material goods which are free but are useful in the process of production and those which are not free. That is, the fact that they are produced means of production seems to suffice for him. If, because of some change in resource supplies or in technical production processes, a particular intermediate good became available in unlimited quantity, then it should properly cease to be of interest to capital and production theorists. Böhm-Bawerk's definition does not allow this. A monetary definition of capital does this automatically.

Yet another problem arises in connection with the question of whether or not capital is exhaustible. In this connection, J. B. Clark, after stating his belief that capital is a material form, goes on to say that capital is inexhaustible while capital goods are necessarily exhausted in the process of production.[21] Thus, Clark cannot avoid the ambiguity, having stated in one place that capital is a material form, and using it in another as if it were a monetary form. In this context he uses "capital goods" as he used "capital" earlier. The confusion is compounded by his lack of clarity regarding the nature of capital consumption.

Clark never satisfactorily explains the distinction between capital and capital-goods. With respect to this matter, Schumpeter, having chosen to identify capital in monetary terms, does not identify capital with capital-goods, and therefore the process of transferring value out of "goods of various orders" during the production process--value which is recoverable once the products have been sold--can be separately observed.[22]

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20. Economic Development, p. 123.

21. Clark, op. cit., p. 117.

22. "The only reason why the entrepreneur needs capital...is simply to serve as a fund out of which productive goods can be paid for...so long as this purchase is not completed, the capital has absolutely no relation to any definite goods at all...When this purchase is completed, does the entrepreneur's capital then consist of concrete goods..?...

Marshall, in equating capital with wealth, has saved himself from the difficulties just discussed but puts himself in the position of regarding any form of wealth as capital. This yields a concept which is of little use in discussing production, although it may be of interest in analyzing the general money market. If one is concerned with the analysis of interest rates, then this is a useful conception, but if one is concerned with an analysis of the economics of production, and of development, neither of which were problems close to Marshall's heart, then one must slice the wealth in terms of the uses to which it is put. Again, by defining the particular fraction of wealth in which they were interested, in terms of its being used to "command" productive factors, both Menger and Schumpeter have spared themselves much difficulty.

Finally, and this lies at the root of Schumpeter's revision of capital theory, the distinction between capital as a reorganizing factor and capital as a true factor of production: in Schumpeter's system, capital has a role to play only when some modification of the flows of goods and resources is about to be undertaken. For all the Neo-Classicals, capital has a constant role to play--it is one of the factors of production.[23] Thus, interest is paid constantly for the use of this capital, whether we are concerned with the stationary state or with a dynamic situation.

Schumpeter states that in the stationary state, the intermediate goods which are tied up in the productive process represent a one-shot transfer of consumption from the present to the future. Once the circular flow has stabilized at a given level, this quantity of intermediate goods is constantly replenished as a normal part of this circular flow. In consequence, Schumpeter raises questions about the Neo-Classical distribution of the product and about

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If the necessary productive means are bought, then the entrepreneur no longer has the capital which was placed at his disposal. He has surrendered it...It has been dissolved into incomes...does not the entrepreneur still have his capital? And can he not at least draw out his capital from this 'investment' again..? No, the entrepreneur has spent his capital. In return for it, he has acquired goods which he will not employ as capital, that is as a fund in paying for other goods [underscoring mine] but in technical production. However, if he changes his mind and wishes to part with these goods, there will usually be other people ready to buy them--and then he can again obtain possession of a greater or smaller amount of capital." Economic Development, pp. 118-119.

23. It is interesting to note that even this role of capital was most significantly overlooked during the early discussions of Keynes' General Theory. While the monetary and consumption-reducing consequences of the investment process were recognized and discussed, the relation of investment to capital, and of capital to total production, was forgotten by most economists. It was not until Harrod and Domar had reopened the general discussion of economic growth that these relations were generally recognized. Here is another example of a great truth being obvious, once it had been discovered or rediscovered. The history of capital theory seems particularly plagued with these embarrassments.

some details of Böhm-Bawerk's analysis of production. With respect to the first point, some attention will be given, later on and at length, to the Schumpeterian theory of interest. With respect to the second, Böhm-Bawerk's production theory, we note that Böhm-Bawerk, in discussing a static economy, makes much of the length of time in production. A basic notion for him is the roundaboutness of production. Schumpeter states that in a static economy this sort of concern is without basis, since there is no waiting in the static economy.[24] There is waiting only for the fruit of a newly introduced process. Thus, for Schumpeter it is not roundaboutness which leads to economic progress, but increased roundaboutness.

C. Interest Theory

In dealing with the matter of "productive" interest (i.e., interest involved in the production process), Schumpeter again leans heavily on the work of an Austrian predecessor, in this case, Böhm-Bawerk. Again, however, there are some fundamental differences between them. Schumpeter accepts all of Böhm-Bawerk's arguments for discarding the interest theories of their Classical and Neo-Classical predecessors. Moreover, he accepts, in substance, the three basic reasons Böhm-Bawerk puts forth for the existence of interest. The differences which arise between Schumpeter and Böhm-Bawerk in the matter of interest flow, it can be shown, out of two matters: the difference in the way in which they define capital and Schumpeter's criticism of Böhm-Bawerk to the effect that Böhm-Bawerk kept on losing sight of the fact that "...no net income would flow from the mere repetition of roundabout methods of production which have already been caried out and incorporated in the circular flow."[25]

Schumpeter raises the following question: since, in the normal circular flow the whole value of production is imputed to labor and land, how can productive interest, a permanent net income payment, be accounted for? There are several possibilities. If interest is imputable to the original factors of production,

> ...interest must be explained as a kind of wages or rent, and since the latter is not feasible, then as wages: as the spoliation of wage-earners ...as the wages of the labor of capitalists...or as the wages of the labor embodied in the instruments of production and raw materials... To Böhm-Bawerk's critique I have only to add that our analysis of the entrepreneur, especially his isolation from the means of production, also cuts part of the ground from under the feet of the first two variants.[26]

Thus Schumpeter rests his refutation of the exploitation theory of interest on the argument presented by Böhm-Bawerk in Capital and

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24. Economic Development, p. 36.

25. Ibid., p. 159.

26. Ibid., pp. 159-160.

Interest.[27] This is primarily a refutation of the labor theory of value on which Rodbertus and Marx, with whom Böhm-Bawerk primarily deals in this discussion, rested their interest theory.

Another alternative faced by Schumpeter is the assertion that productive interest represents a cost in addition to wages and rent. In order to support this assertion, one must look for an additional factor to which this cost is imputed. An example of such a factor is abstinence. Schumpeter takes the same position[28] on this point as does Böhm-Bawerk,[29] and the latter is cited as authority. Alternatively, Schumpeter considers the possibility that productive interest is a payment to produced means of production. Here, there is no question of productivity. However, he states that, insofar as the total value of these produced means of production is imputable, in the circular flow, to the factors of production which produced them, ultimately everything is traceable back to land and labor, and there is no place for productive interest here.[30]

But interest does exist. How can it be explained? Schumpeter suggests that, rather than explain interest as a consequence of the gap between the value of a product and its means of production, the gap be explained as a consequence of interest. Individuals value means of production less than final products because they must pay interest to go from the former to the latter. But they do not pay interest because they value the former less than the latter. Thus, interest seems to have an existence independent of this gap.[31]

Is it, then, the case that interest is a brake on rent and wages of labor? If this were the case, says Schumpeter, interest would not be a component of cost of production. It would instead be a surplus. In fact, Schumpeter suggests that interest is a consequence of surplus values, circumstances flowing from the necessities and repercussions of development, in which the value of a product is raised above the value of its means of production. The circumstance which generates interest, albeit not directly, is entrepreneurial profit. This profit, which persists only so long as the development process

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27. Böhm-Bawerk, Capital and Interest, W. A. Smart, transl., London, 1890, pp. 317-392.

28. Economic Development, p. 161.

29. Böhm-Bawerk, Capital and Interest, pp. 275-287. In his discussion here of Senior's abstinence theory of interest, Böhm-Bawerk states that mere abstinence does not necessarily demand its reward. If an investment is rendered fruitless for some reason, the fact of its investment remains. The cost is the same, and yet all the abstinence in the world will not yield interest in this circumstance. In fairness to Senior it should be pointed out that in his discussion of the concept of abstinence, he says that "...pure Abstinence, being a mere negation, cannot produce positive effects..." Nassau William Senior, An Outline of the Science of Political Economy, New York, 1951, p. 60.

30. Economic Development, pp. 161-162.

31. Ibid., p. 164.

does, is the source of interest. The prospect of reaping entrepreneurial profit generates a demand for a sum of money which will assist in the attainment of entrepreneurial profit. For this sum of money interest will be paid.[32]

Schumpeter then concludes that interest is not a perpetual income stream, but continues only so long as the process which generates entrepreneurial profits, the development process, goes on. During the development process, the entrepreneur can obtain a higher return for his product, after a new combination has been carried out, than the cost of his inputs. Therefore, he is willing to pay a premium for a present sum of money wherewith to purchase factors of production with which to produce such output. As long as such interest is being paid for funds, it can be shown that interest spreads from this narrow base out over the entire economy.[33]

> ...There are cases...in which interest is only demanded and paid because it is possible to demand and pay it. Interest on bank balances is an example. No one transfers his purchasing power to the bank with the intention of investing his capital in this way. On the contrary, money is deposited only insofar as it is desirable to have a supply of purchasing power available for business or private reasons. This would happen even if something had to be paid for it...[as is, in fact, the case today. R.J.W.] ...but actually the depositor receives, in most countries, a kind of share in the interest which the sums in question yield in the banker's hands. And when once this has become usual, people will not be inclined to leave a balance at a bank which does not pay interest...Now this phenomenon reaches very far into all economic life...Thus interest forces its way into the business of people who have not themselves anything to do with new combinations.[34]

It is this spread of interest, and the ongoing development process, which assure the continuity of interest. However,

> ...there is no such thing as a lasting income from interest out of one and the same business, as anyone who does not believe it and acts accordingly may learn to his cost.[35]

Consequently, since productive interest is essentially a tax on entrepreneurial profit, Schumpeter concludes that productive interest is not to be expected in the circular flow. Of course, in the circumstance of a circular flow coming about after a period of development has subsided, the phenomenon of the spread of interest into non-productive areas of the economy may prolong the practice of paying interest for a while. However, in the long run, in the circular flow interest would not be found.

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32. Economic Development, pp. 168-175.

33. Ibid., pp. 190 et seq.

34. Ibid., pp. 201-202.

35. Ibid., p. 209.

What has been presented here is what might be called the "pure" Schumpeterian interest theory. There is some slight evidence in Economic Development[36] that Schumpeter might have been willing to withdraw from the lengths to which he went on this point. Subsequently, in Business Cycles, he seems to go even further toward admitting this possibility. Nowhere else in print does he expand on this, although Haberler mentions conversations in which Schumpeter spelled out his modified theory of interest.[37]

The modified theory of interest, according to Haberler, admits that there would exist a positive rate of interest in the circular flow, but that dynamic forces would raise it above its stationary level. This is consistent with what Schumpeter says in Business Cycles. According to Haberler, Schumpeter admitted the possibility, even in the circular flow, of increasing roundaboutness. So long as the expected yields of these investment opportunities are less than the going rate of interest, then the opportunities are not utilized. Once the yields exceed the going rate, then the opportunities are utilized, and the rate rises. However, Schumpeter insisted, according to Haberler, that not much is done in the world in this orderly a fashion, and that, in particular, economic progress in recent times cannot be explained in this way.[38]

Moreover, it can be pointed out that had Schumpeter been willing to consider another matter, he would have had yet another ground for admitting that, even in the circular flow, interest rates would not fall to zero. We refer here to the liquidity preference of potential asset owners. Some inducement is undoubtedly necessary to overcome the preference to hold assets in liquid form. (In fairness to Schumpeter, it should be noted that he comes close to admitting this latter point in the paragraph on p. 127 of Business Cycles which is cited in footnote 37.)

Why did Schumpeter find it necessary to make such an extreme case for the zero interest rate? It was on this point that he was subject to most attack, and it was on this point that he was, publicly, most adamant.

It is quite clear that, given the understanding that interest is the return on capital, this interest theory was a logical consequence of Schumpeter's definition of capital. We have seen that this definition is quite useful in distinguishing the process of economic development from the circular flow and from the process of production under whatever circumstances. The appeal of this definition of capital and Schumpeter's proclivities toward ironclad logic, plus his apparent unwillingness to be so completely logical as to redefine interest, left him in an extremely vulnerable position. Had he merely insisted on confining himself to a discussion of "productive" interest and made it clear that

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36. His recurrent qualification of interest by the term "productive" throughout Chapter V of Economic Development lends support to this statement.

37. Cf. Business Cycles, pp. 126-127; also G. Haberler, "Schumpeter's Theory of Interest", in S. Harris, ed., Schumpeter, Social Scientist, Cambridge, 1951, pp. 72-78.

38. Ibid., p. 77.

his remarks did not extend to all forms of interest, he might have succeeded in holding his position, but he did not go this far. Hence his falling out, on this point, with most of his colleagues, even Böhm-Bawerk.[39]

IV. Schumpeter's Development Theory

A. The Secular Process

Much of Schumpeter's development theory has already been hinted at in the process of discussing capital and interest theory and the circular flow. However, at this point it would be well to pull the threads together and discuss some of the crucial aspects of Schumpeterian development which have been lightly passed over.

Schumpeterian development rests on the innovation process and on the innovator, on the credit mechanism, and on the drive for profit maximization. The virtue of this sort of theory, says Schumpeter,[40] is that it rests on factors internal to the economic process. The inference which one can draw is that most, if not all, other theories of economic change do involve some change in plans, some external shock, some external factors.

The innovation process boils down to "...the setting up of a new production function...";[41] that is, the appearance of a new production technique, a new commodity, or a new organization for making or selling a good. Of course, the new production functions which would survive would be those which yield factor cost plus interest at the very least. The goal for which the entrepreneur strives is to find one which would yield in addition some net profit. It is this chance in the short period before the innovation is imitated and product prices are driven down while factor prices may rise, which is the spur to entrepreneurs. Further, it is the maintenance of this source of interest which is the spur to capitalists. Schumpeter states that without entrepreneurial profits, the whole base on which interest rests would be gone.

Thus, this pressure for profits and interest which is wholly contained in the normal capitalist process is the seed of change. Consequent to this sort of pressure are changes in products, changes in resource use, changes in technology, changes in social structure flowing out of the above changes. Hence, Schumpeter is saying that Capitalism cannot be stable.[42]

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39. Schumpeter and Böhm-Bawerk engaged in a controversy on this point in the pages of the Zeitschrift für Volkswirtschaft, Vol. 22, 1913.

40. Business Cycles, pp. 72-87.

41. Ibid., p. 87.

42. For a discussion of this at some length, see J. A. Schumpeter, Capitalism, Socialism and Democracy, 3rd ed., New York, 1950, Ch. 12.

This drive for profits which is carried on through the innovation process requires the entrepreneur for its execution. The entrepreneur is the subject of lengthy discussion by Schumpeter.[43] This entrepreneur is the New Man, the leader, the man of vision and intuition, the man who is able to see new ways of doing old things as well as to see new things to be done. He is willing to take a risk, although it is not the risk of losing his capital, but rather the risk of failing.

The fact is that the entrepreneur in pure form does not own any capital. To the extent that he does own capital, he is a capitalist rather than a entrepreneur. The entrepreneur acquires capital by borrowing. He draws on some source of purchasing power, making use of the promise of success of his innovation. If the innovation is successful, interest will be paid to the capital-lender. It is the capitalist who risks the capital.

The usual source of capital at the outset, Schumpeter holds, is not savings, but credit. Savings would not arise in the circular flow (given constancy of tastes) except as a result of profits or some unexpected event. However, in the long run, unexpected catastrophe is no less likely than unexpected bonanza, and since profits are absent in the circular flow, savings are thus not to be expected in this sort of economy. Any other store of funds must necessarily be involved in the processes of the circular flow. Consequently, some creation of purchasing power is necessary: thus credit.

The entrepreneur, in pure form, is thus the only member of the economy who is necessarily a borrower. Borrowing is a normal part of his role, just as innovating is.

When credit has been granted to the entrepreneur, he has acquired "command over goods" and is able to divert factors of production into his hands. Until the appearance of his output on the market and until the success of his operation is somewhat assured, a productive-factor inflation will result. However, once the operation is underway successfully and the credit is repaid to the source, the price level of productive factors will recede to its former level.

In the midst of a development process, when profits are present, it could be said that now sources of funds for further development are available to the entrepreneur, and he need not borrow. However, insofar as he furnishes funds to himself, he is operating as capitalist and not as entrepreneur.

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43. Business Cycles, pp. 102-109; Economic Development, pp. 75-94; "Economic History and Entrepreneurial History", in R. R. Wohl, ed., Change and the Entrepreneur, Cambridge, 1949.

It is interesting to speculate on the source of Schumpeter's interest in the entrepreneur. From the way in which he uses the entrepreneur in his theory, and from his well-known familiarity with Marx, it is not unreasonable to conclude that Marx may have been responsible for Schumpeter's use of the entrepreneur, if not for his lifelong expedition which might have been entitled: "Capitalism Revisited, and Found Better Than Heretofore Reported." Indeed, Martin Bronfenbrenner, whose reputation as an economic epigrammist is well established, has referred to Schumpeter as "The Rich Man's Marx" on a number of occasions.

B. The Cyclical Process

Although it is possible to conceive of the above process occurring in a smooth fashion, Schumpeter goes on to make clear that he does not believe that this is the form in which it does arise. He states that economic development in a capitalist economy is inextricably involved with the business cycle,[44] in fact, that the business cycle serves an important and a salutary function.

In this system, the business cycle is a direct consequence of the appearance of innovations. That is, it flows from the fact that innovations do not appear independently of one another, but in swarms or clusters.[45] This swarm-like incidence of innovations (and innovators) is attributed to the following circumstances: the dearth of entrepreneurial ability of a high order and the greater ease of entrepreneurial success when the path has once been broken; the greater numbers of people possessing entrepreneurial ability of modest magnitude and therefore able to become successful innovators once the path has been broken; the greater ease of innovating in many industries once certain innovations have appeared in others; the greater calculability of the development process after a group of innovations has started to appear and, hence, the greater tendency for more innovators to turn up. Moreover, the impact of this swarmlike appearance of innovations is amplified, since these innovations appear as additions to existent economic activity; and the fact that they appear in swarms means a substantial addition to purchasing power; that is, the boom is reinforced.[46]

However, the boom is reinforced in yet another way. The rising level of economic activity encourages many producers and traders to speculate on the continuation of this upswing. Many decisions are taken which, in the event of a levelling off or a declining rate of increase, will be found to have been mistakes. These decisions involve commitments to buy resources and to contract for credit at prices which are economically justifiable only in the event that the rate of increase in economic activity continues at the same pace as has been displayed. These phenomena Schumpeter collects under the heading of the secondary wave, as distinguished from the primary wave, which is based on the appearance of swarms of innovations.[47]

Thus, we see that in Schumpeter's system, the rising limb of the cycle consists of two components, one of which is based on "productive" and the other of which is based on "unproductive" activity. Although the latter aspect of the upswing is greater in magnitude and therefore more visible, it is the former aspect of the upswing which Schumpeter finds qualitatively more important insofar as the whole cycle is triggered off by innovation. The speculative component of the cycle is merely, says Schumpeter, a consequence of the innovation component.[48]

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44. Economic Development, pp. 252, 253; Business Cycles, Vol. I, p. v.

45. Economic Development, p. 223.

46. Ibid., pp. 227-230.

47. Business Cycles, pp. 145-147.

48. Ibid., pp. 146-147.

Meanwhile, even as the speculative component of the cycle is developing, the forces which lead to a downturn are developing. The new products of the innovators are starting to appear on the market in larger and larger quantities. Sooner or later their prices start to fall. As sales move forward, the innovators begin to repay the loans which they had contracted. At the same time, as production continues at a high pitch, the prices of factors of production have reached high levels. The combined impact of dropping product prices and rising factor costs on the older firms is not hard to imagine. Some of the older firms can adapt to the new techniques, but others will find the going too much to bear and will start to contract. Moreover, at the same time, the capital market is reeling under the impact of substantial net debt repayment. These two factors in combination lead to contraction.[49] The effect of this deflationary tendency on the speculative component of the economy is catastrophic, since the latter is based on an expectation of continued expansion of the economy. Loans are recalled, contraction is substantial, and collapse is not uncommon.[50] Again, the visible aspect of the downswing, says Schumpeter, is the speculative component of the economy, which is contracting rapidly, while the important aspect of it is the contraction of output in the lines which have been affected by innovation.

Associated with the primary aspect of the cycle are consequences which are necessary concomitants of the development process and which are, in fact, good for the economy in the long run. Associated with the secondary wave are effects which could be done without and which are unfortunate. As a consequence of the difficulties experienced by the older firms and the less perspicacious new ones, their very existence is threatened. These firms must either adopt the innovations or die.[51]

It is this threat to the existence of many firms, along with the reduction in cost of commodities to the consumer, which are characteristic of the trough in the cycle and which Schumpeter sees not merely as necessary successors to the expansion of the peak, but as good for the economy.

> ...Apart from the digestion of the innovations...the period of depression...fulfills what the boom promised. And this effect is lasting, while the phenomena felt to be unpleasant are temporary. The stream of goods is enriched, production is partly reorganized, costs of production are diminished, and what at first appears as entrepreneurial profit finally increases the permanent real incomes of other classes.[52]

Schumpeter draws some policy conclusions from this analysis which are interesting if for no other reason than that they are so different from views which have been widely expressed since the early thirties. From his viewpoint, the most important remedy for depression is the improvement of business

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49. Business Cycles, pp. 135-136.

50. Ibid., p. 148.

51. Economic Development, pp. 232-237.

52. Ibid., p. 245.

cycle forecasting. Any anti-cyclical policy such as credit extension simply means inflation and interferes with the process of selection among business firms. Certain types of controlled credit restriction appeal to Schumpeter, although he does not undertake to discuss them in any detail.[53]

C. Evaluation of the Development Theory

With this sketch of Schumpeter's development theory before us, we can now ask in which particulars it differs from other theories of economic change and to what extent it was necessary for Schumpeter to have made so free with a number of economic concepts.

This theory has two significant virtues. It is almost unique in its emphasis on a force which is quite generally acknowledged to be most significant for the growth process: innovation. Moreover, it examines innovation from several viewpoints: the association between innovation and profit maximization and the swarmlike appearance of innovations. It is a theory which is more complete than most, in the sense that it attempts to encompass a greater variety of phenomena than is ordinarily dealt with in a theory of economic change. That is, ordinarily, theories of economic change are concerned with one variety of secular change or with cyclical change which is not complicated by secular growth. Schumpeter's model intertwines the two in such a fashion as is not done elsewhere. Moreover, he attempts, along the way, to account for pure cyclical fluctuation as well, and it is here that it is perhaps easiest to pick up a loose thread and show how the theory is based on some conceptions which may be valid but are in a class with the problem of the number of angels standing on the head of a pin. That is, they are not testable.

There is an interesting uniformity in Schumpeter's theory. In dealing with both the rate of interest and with the business cycle, Schumpeter designates components as "productive" and "unproductive". Schumpeter's business cycle consists of two indistinguishable components. The same is true of the Schumpeterian interest rate. In each case, one component is characterized as good, constructive or progressive, while the other is characterized as bad, regressive, destructive. The productive component is associated with innovation and the unproductive with speculation, but it is impossible to state operationally how these components are to be distinguished from one another. In a sense this is trial by ordeal: there is good and there is evil, and only those who can distinguish good from evil can get to heaven. He who can separate the productive component of interest from the unproductive is in a position to predict the shape of economic events to come. He can see the cycle, he can separate the primary cycle from the secondary. He who cannot make these distinctions falls back on other, less appealing means of explaining economic change. And they are less appealing, for the reason of being based on external occurences; on peculiar tendencies for production, consumption, investment, or the monetary system to get out of phase with each other, for the reason that much smaller groups of phenomena are dealt with.

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53. Economic Development, pp. 253-254.

Then it becomes clear that the major complaint which can be made against this model is that while it is logically consistent, it rests ultimately on untestable hypotheses. Upon examination of this charge, it becomes quite clear that it stands in need of explanation and qualification. There is a great difference between saying that these hypotheses are untestable in principle, and saying that they are untestable at present. It might be that they are untestable at present simply because data are not now available which are appropriate for testing them, but that these data could, in principle, be gathered. On the other hand, the hypotheses might be untestable because data which are necessary for a test cannot, under any conceivable circumstances, be gathered.[54]

Is Schumpeterian cycle and development theory untestable in principle, or is it merely due to lack of data that tests cannot now be conducted? It may be the latter. In this case, what data would be needed? It seems to me that there is one large area of ignorance which must be cleared out before the Schumpeterian hypotheses could be examined. Even in the event of its removal, it is not certain that this would suffice, but it seems clear that the removal of this lack of knowledge is a necessary condition for such a test. I refer to our ignorance about the processes of innovation and invention. Simple indices, for short time periods and by industrial sectors, of innovation and invention might conceivably be a key to what has thus far been a locked door.

It was in his attempt to split the rate of interest and the business cycle into "productive" and "unproductive" components that Schumpeter came into most conflict with his colleagues. The whole interest rate controversy rests on his insistence that in the circular flow the rate of interest goes to zero. As has been pointed out, he could only have meant the "productive" rate.

A less noisy dispute arose around his business cycle theory, less noisy in part because there is no substantial agreement as to the causes of cycles. However, Schumpeter once more took a position which was radically different from those of most of his colleagues. With the exception of the "Austrian School" of cycle theorists (e.g., Hayek, Mises, Machlup), most cycle theory rests on the appearance, throughout the economy, of fluctuations attributable to global imbalances. That is, it is said that the cause of the imbalance in the economy cannot be localized. The Austrian School rests its explanation of cycles on more local phenomena--disparities of growth rates of the producers' goods and consumers' goods industries.[55] Schumpeter similarly bases his

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54. In this connection, it should be pointed out that one of the significant reasons for the immediate and resounding success of Keynesian theories was that they were not merely testable in principle, but that the data which were necessary for making tests of major aggregative hypotheses had been gathered and procedures for their continued collection had been laid out a few years earlier. I refer here to the whole structure of National Income and Product Accounts which had been worked out at the National Bureau of Economic Research under the leadership of Simon Kuznets.

55. Cf. D. Hamberg, Business Cycles, New York, 1951, Ch. 6. It is not surprising that this similarity of cycle theories should be found to prevail among men who share the heritage of Menger, Wieser, and Böhm-Bawerk.

case on the local phenomenon of the swarm of innovations. Even so, a significant aspect of the Austrian (or overinvestment) theory is its concern with the monetary system as an active element in the generation of cycles. For Schumpeter, the monetary and banking systems respond passively to other forces.[56] Moreover, Schumpeter, much more than most other cycle theorists, was inclined not merely to take comfort in the fact that the business cycle had its good as well as its bad consequences, but rather took the position that it was necessary, good, and useful, and moreover, that the bad consequences of business cycles had been grossly overstated.[57]

In a sense, one might say that Schumpeter led himself into difficulties in the very attempt to be different. But it is significant that none of the difficulties into which he fell involved a lapse of logic. Certainly, for tightness of reasoning, for relentless pursuit of definitions, for a determined tracking down of fractions of value to their sources (I have his treatment of "productive" interest particularly in mind), Schumpeter is not frequently excelled, and the chances are that his treatment has cast much light on the intricacies of the distribution process.

V. Schumpeter's Impact on the Economics of Change

What has been the result of Schumpeter's work on the theory of economic change? That it was trail-blazing, that it was the first clear treatment of economic change among orthodox Neo-Classical economists until post-World War II years--this is not to be gainsaid. However, what specific consequences has it had?

The answer to this question is rather short: it has had very few consequences. Schumpeter's theory has essentially been let alone. His interest theory was subject to much attack when it first appeared. His general concern with innovation and entrepreneurship were regarded as not remarkable. It was felt that these were obvious influences in development, but outside the area of concern of most economists.

The appearance of his work on Business Cycles, which incorporated much of the theory laid out in his volume on Economic Development, was in part eclipsed by the fact that it arrived shortly after the appearance of Keynes' General Theory, which still was sitting on the stomachs of many of the economic profession like a lump of lead. One case of indigestion at a time was enough, apparently.

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56. It is interesting to note, too, the complete absence of government in Schumpeter's model. The role of the government seems to be restricted to police and sanitation activities. There is no mention of any government policy, not even monetary policy. There is no calculation in Schumpeter's theory of the effect on the development process of anti-cyclical policy of any sort. It is interesting to speculate on what light this omission might cast on Schumpeter's short and disastrous career as Austria's Finance Minister just after World War I.

57. Economic Development, p. 246.

Since the end of World War II, interest has grown in pursuing some of Schumpeter's concepts. This interest has arisen largely among economic historians and sociologists who have concerned themselves with the problems of entrepreneurship and innovation. The Research Center in Entrepreneurial History at Harvard, both through research done by the personnel of the Research Center and research done elsewhere which appears in the journal, Explorations in Entrepreneurial History, and individual researchers such as Fritz Redlich,[58] have been given impetus by Schumpeter. In addition, the growing concern with innovation and technological change which springs up everywhere is attributable in some measure to Schumpeter's influence.

However, in the center of economic thought, among economists who devote themselves to the extension, testing, and application of economic theories, the general pattern with respect to Schumpeter's work has been to acknowledge it politely, but to make no use of it. Clearly, his contributions to capital theory, theory of economic growth, and the theory of the business cycle have been massive. Yet it seems that in these areas, aside from such exceptions as Daniel Hamberg, neither economic theorists nor political economists have built explicitly on Schumpeter's work.[59] Why is this?

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58. Redlich, consciously following in Schumpeter's footsteps, has made a number of worthwhile contributions to an analytical treatment of the entrepreneur and his relation to the development process.

His article, "The Business Leader in Theory and Reality", American Journal of Economics and Sociology, Vol. 8, pp. 223-237, presents an interesting fragmentation of entrepreneurship into three basic varieties, all of interest to the analyst of economic change. These are: the creative capitalist, the creative entrepreneur, and the creative manager. The first is the innovator in investment techniques. The second is identical with Schumpeter's entrepreneur. The third is the innovator of management techniques. Redlich does a careful job of analyzing differences in operation, in motivation, of these three types.

Redlich, in another article, "Innovation in Business", ibid., Vol. 10, pp. 285-291, defines, more clearly than has usually been done, the difference between qualitative change or development and mere quantitative change or growth. That this important distinction has not been taken seriously is evident from an examination of periodical literature in the field of economics in recent years. Many economists who are really concerned with growth claim to be interested in development as well.

In addition to this work of Redlich, the whole field of business history which has grown up during the last ten years or so is clearly traceable to Schumpeter. Moreover, the interest of such sociologists as Lloyd Warner in the businessman is at least allied to Schumpeter's interest, if not in some sense derived therefrom.

59. D. Hamberg, Economic Growth and Instability, New York, 1956. It should be noted that it is somewhat difficult to isolate the Schumpeterian elements in Hamberg's book. Hamberg does employ some of the more important Schumpeterian concepts. However, they are very subtly concealed among the Keynesian shrubbery. Fundamental to Hamberg's work, though, is the idea of the basic instability of capitalism and the relation

It seems to me that there are five reasons for this. They are: (1) the current lack of interest in capital theory; (2) the complete lack of concern for policy in all of Schumpeter's works; (3) the non-operational character of many of Schumpeter's economic concepts; (4) the complexity, or the richness, of many of his concepts; and (5) the assumption of instability which underlies Schumpeter's model.

It is true that in recent years there has been an extraordinary decline of interest in capital theory. The chances are that this is due, in large measure, to the appearance of Keynes' General Theory. This resulted in a change of focus away from concern with real income and its distribution to a concern with monetary problems. The change has been from markets to central policies. Capital has been transformed into investment, and investment has been transformed from a process of accretion of a factor of production to a process related to the monetary stability of the economy. Capital theory, insofar as it is concerned with the linkage between production and the money market, has become less interesting to economists. There can be no complaint about this change of focus. Keynesian theory has resulted in the development of some massive engines of analysis and policy, but it is unfortunate that one side-effect of it has been to eclipse, if only temporarily, what appears to be a body of thought of great promise.[60]

It has been pointed out earlier that Schumpeter was really quite unconcerned with economic policy. He remarks, at the close of Economic Development,[61] that anticyclical policy should be restricted to the publication of information, but that no attempt should be made directly to interfere with the course of the cycle. He does not discuss monetary policies of any sort, and it seems reasonable to conclude that he does not believe that there should be any attempt to control inflation or deflation. He does not discuss government investment activity, and all one can conclude is that he believes that the level of public investment should be determined by the need for social overhead capital, rather than by the need for investment as a stabilizing factor. It need not be pointed out that these attitudes are quite foreign to the economist of the past twenty or thirty years. This indifference to policy may, of itself, have been a strong factor in the disinterest of economists in general in Schumpeter's work. The fact that he makes no policy prescriptions, and that it is not easy to read any into his work may go far in explaining the indifference of the political economist.

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of this to innovation. These concepts Hamberg traces directly to Schumpeter. However, neither Hamberg nor anyone else, to my knowledge, has considered the possibility of constructing a model incorporating Schumpeter's interest or capital theory, nor have Schumpeter's treatment of the entrepreneur or the innovation process turned up in the many growth models which have been appearing in professional journals recently.

60. It is ironic, too, to note that the bulk of the growth theory which has appeared in recent years is based on the work of Keynes, who was really quite unconcerned with economic growth, while Schumpeter became interested in this matter as early as 1912 and maintained a lifelong interest in it.

61. Economic Development, pp. 253-254.

The problems raised by the non-operational character of Schumpeter's "productive" versus "unproductive" interest and his primary and secondary wave, as well as the appearance in central roles of such concepts as custom, innovation, the entrepreneur, the concept of social role and social class in Schumpeter's development theory present serious difficulties to the econometrician and the theorist. These conceptions are, in the first instance, immeasurable and, in the second instance, extraordinarily rich in non-economic (i.e., psychological and sociological) content. If Schumpeter's theory is to be tamed and civilized, these conceptions must be operationalized and made accessible both to rigorous definition and measurement. This is no easy task, and the obvious difficulties associated with such a task have undoubtedly had the effect of causing prospective rigorizers and measurers to lose interest.

Finally, although it is not an insuperable task, there are difficulties attached to the construction of a model which rests on the idea of disequilibrium. Schumpeter's theory is so constructed as to make of the equilibrium state a vacuous and uninteresting special case which is never encountered. The circular flow can be likened only to a state of coma or death. The interesting things happen elsewhere. In the circular flow, there is no profit, no interest, no capital, no innovation, no entrepreneur. It is only in the period of development, of instability, that these things appear. Can a model be easily constructed which has as an equilibrium state almost no economics? Obviously not. Most economic models of change, be they growth models or business cycle models, start from an equilibrium state which has most of the appurtenances of an economy, except that some key variable is not moving. It is, however, not absent. The cause of change is an imbalance which arises because some of the variables get out of phase. Schumpeter's model is fundamentally unstable. Such a model requires some new approaches which have not been attempted yet.

Thus, when we compound these difficulties it becomes understandable that Schumpeter's works have been collecting dust on the theorist's bookshelf. It is to be expected that as the interest in economic change continues and deepens, and after the out-of-phase theories and the theories resting on exogenous stimuli have been weighed and found incomplete, a reappraisal may take place. If so, these incomplete theories will be enriched by the addition of Schumpeterian concepts. In this event, justice will be served if credit is given to Schumpeter.

SOME SOCIO-ECONOMIC EMIGRATION DIFFERENTIALS IN RURAL ITALY, 1902-1913*

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Italian emigration reached its largest dimensions before the First World War. There is little doubt that this massive movement was principally directed towards economic goals. It is usually argued that Italian emigration was the product of economic "push" factors in Italy and economic "pull" factors in the receiving countries.[1] However, Italian emigration before the First World War did not conform perfectly to the theoretical model of movement within the international labor market, which is implicit or explicit in almost the entire literature on the subject. There is little doubt that Italian emigration was largely determined by economic "pull", in that its volume and direction fluctuated, for the most part, in accordance with economic conditions in the receiving countries, unless the emigrants were obviously misinformed. However, Italy's territorial emigration differentials were not simply the result of different degrees of wealth and poverty; they depended not on economic "push" factors alone, but on the different socio-economic systems in each of Italy's subdivisions.

Emigration was not the only way of seeking economic betterment. The choice of emigration as a solution for poverty in Italy depended on the class structure. That is, Italy's territorial emigration differentials depended on the socio-economic ramifications of the income distribution system in each district, and not simply on the average income per capita.

To examine this interpretation, this paper will first discuss only the emigration rates of nine of Italy's rural regions, namely, Emilia-Romagna, Tuscany, Umbria, the Marches, Abruzzi-Molise, Apulia, Basilicata, Calabria, and Sicily. Moreover, it will be restricted to the period, 1902-1913.

Before 1902, the regional emigration statistics are unreliable. Moreover, until the ban on militant working class organizations was lifted in mid-1901,

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* This paper is based principally on a study made in Italy in 1953, under a travelling scholarship from the Italian Ministry of Foreign Affairs, and in 1954, under a research scholarship from the Australian National University.

1. R. F. Foerster, The Italian Emigration of Our Times, 1919, pp. 244, 421; H. Jerome, Migration and Business Cycles, 1926, p. 197.

some Italian emigration was of a "forced" or "political" type.[2] The regional emigration statistics after the First World War do not serve the purposes of this paper since, from 1914, Italian governments and the governments of the receiving countries have enforced severe restrictions on international movement. These restrictions, which have lasted up till the present day, have not only greatly diminished the total volume of Italian emigration, but have also affected Italy's territorial emigration differentials. Furthermore, in the interwar and postwar periods, some Italian emigration has been of a "forced" or "political" nature. Under the Fascist regime, many anti-Fascists, Jews, and German-speaking folk left the country for other than economic reasons. Many postwar emigrants from Italy have been refugees from the border lands taken by Yugoslavia and from the colonies.

Liguria, Piedmont, and Lombardy are excluded from this analysis because they were partly industrialized (see Table 1). Latium and Campania are excluded because large proportions of their population were living in the cities of Rome and Naples. Emigration from Italy's cities and industrial towns was negligible.

Table 1.
Rurality and Total Emigration

Regions	Males in Agriculture 1911[a]	Total Emigration 1911-1913[b]
Liguria	26	2.1
Piedmont	46	5.7
Lombardy	39	4.7
Veneto	52	9.4
Emilia-Romagna	51	3.9
Tuscany	47	4.6
Umbria	62	6.3
Marches	59	7.4
Latium	37	4.0
Abruzzi-Molise	65	9.7
Campania	40	6.0
Apulia	56	4.2
Basilicata	62	8.7
Calabria	57	9.4
Sicily	48	7.8
Sardinia	57	3.1

a. Males in agriculture, hunting, and fishing per 100 males over 8 years of age. The figures for females are of little value.

b. Transoceanic and continental migration per 100 inhabitants. As the text indicates, these figures cannot be taken at their face value, without important reservations (see Table 2).

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2. F. Coletti, "Dell'Emigrazione Italiana", in Reale Accademia dei Lincei, Cinquant'Anni di Vita Italiana, 1911, pp. 114, 122, 133, 136-137; B. Croce, A History of Italy, 1929, pp. 190, 206.

The Veneto, a predominantly agricultural region (see Table 1), is excluded because the greater part of its emigration went to continental countries and was therefore not adequately recorded. There was very little continental emigration from the selected rural regions. The emigration statistics in 1902-1913 were based principally on the number of passports issued; only transoceanic passports were obligatory. Sardinia, another rural region, is not discussed for lack of data about its socio-economic system, which undoubtedly differed markedly from those in the nine rural regions to which this discussion mainly refers.

The selected rural regions may be classified broadly as follows:

a. The Center, namely, Emilia-Romagna, Tuscany, Umbria, and the Marches;

b. The Deep South, namely, Abruzzi-Molise, Basilicata, Calabria, and Sicily's east, north, and west coasts;

c. Sicily's Interior, namely, the mountains and south coast; and

d. Apulia.

Tables 1 and 2 show the Deep South had far higher emigration rates and total migration rates than the Center. Sicily as a whole, Apulia, and the Marches had emigration rates which stood in an intermediate position between those of Emilia-Romagna, Tuscany, and Umbria on the one hand, and the Deep South on the other hand. Column (a) of Table 2 shows most clearly the relative emigration rates of Apulia and the Deep South. This paper will discuss emigration rates rather than total migration rates, since columns (a), (b), and (c) of Table 2 are practically interchangeable in this context.

Average Income Levels and Income Distribution Systems

The common assumption that Italian emigration was a product of economic "push" factors seems to be supported by the high inverse correlation between the selected rural regions' emigration rates in 1902-1913 and their average income levels in 1928, the first year for which fairly reliable income figures are available (see Table 2). However, the average income levels in Table 2 have little meaning in themselves, for the cultivators were more or less equally poor throughout the Center and the South.[3] This was due to the fact that the higher average income in the wealthier regions was very unequally distributed. Particularly in Emilia-Romagna, Tuscany, Umbria, Apulia, and Sicily's Interior, wealth was largely concentrated in the hands of a small minority (see Table 2, column e). In the Deep South, there was a "mixed" property distribution system, and there was not such a distinctive gap between rich and poor.

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3. Inchiesta Parlamentare sulle Condizioni dei Contadini nelle Provincie Meridionali e nella Sicilia, 1909-1911, Vol. VIII, p. 114. Also ibid., Vol. VIII, pp. 542-543. G. Medici, I Tipi d'Impresa nell'Agricoltura Italiana, 1951, p. 33. M. Rossi-Doria, La Riforma Agraria e l'Azione Meridionalista, 1948, p. 36.

Table 2.
Migration Rates, Average Income, and Income Distribution in Italy's Rural Regions

Selected Rural Regions	Net Migration, 1901-1911[a]	Transoceanic Migration 1902-1913[b]	Transoceanic Migration 1911-1913[c]	Average Income, 1928[d]	Agricultural Income Inequality 1921[e]
Emilia-Romagna	-30	39	96	27	108
Tuscany	-49	53	162	28	90
Umbria	-76	52	163	25	68
Marches	-72	164	431	20	79
Abruzzi-Molise	-107	338	862	17	14
Basilicata	-135	340	839	18	33
Calabria	-82	368	917	16	28
Sicily	-60	264	743	18	37
Apulia	-33	118	369	18	50

Correlation coefficient of b and d = -.86
Correlation coefficient of c and d = -.89
Correlation coefficient of c and e = -.90
Correlation coefficient of d and e = -.88 (each significant at .05 level)

a. The difference between the potential increase in population and the actual change in population in 1901-1911, as a percentage of the potential increase; potential increase equals the difference between live births and deaths in 1901-1911. Thus, in a sense, these figures measure the drainings off of increasing "population pressure" (cf. Table 1, column b).

b. Per 1,000 inhabitants.

c. Per 10,000 inhabitants. These figures do not count the same emigrants twice, since passports were only valid for three years.

d. Hundreds of lire at 1938 value. Source: Associazione per lo Sviluppo Industriale del Mezzogiorno, Statistiche sul Mezzogiorno d'Italia, 1861-1953, 1954, p. 683.

e. Indices of concentration of land value. Source: G. Lorenzoni, Inchiesta sulla Piccola Proprieta Coltivatrice Formatasi nel Dopoguerra, XV, 1938, p. 311.

Property Distribution in the South

The feudal system had broken up in most districts of the Center during the Renaissance. Except where land was expressly vested in formal local associations or the communes, it had become an alienable commodity long before the unification of Italy in 1861.[4] The Risorgimento transplanted the laws of

4. For the best brief account of the changes in the legal basis of Italian agriculture, see: Ministero per la Costituente, Rapporto della Commissione Economica, I: Agricoltura, 1947, Vol. I, pp. 3-11.

this marketable property system to the South. There the feudal system had survived practically intact until the Napoleonic Wars. Land had been, with few exceptions, the inalienable property of lay or clerical aristocrats, religious bodies, or the kings of the Two Sicilies.

The new regime created by the unification of Italy quickened the pace of the feudal disintegration which had been set in motion in the South by the legal abrogation of feudalism at the beginning of the Nineteenth Century. The demesnes of the feudal landowners were generally parcelled out by the courts among the local inhabitants, in accordance with the traditional balance of rights which each class had held in respect of the other. Ideally, common grazing land and woods went initially to the communal administrations. In theory and often in practice, intensively cultivated land, which was very limited in extent at this time, was subdivided among the cultivators who had been associated with it. Many of the communal demesnes were also eventually subdivided and auctioned. In the 1800's, some orders of property holding monks had been dissolved and their estates made marketable. In the 1860's, the new central government prohibited the collection of tithes and expropriated and auctioned the ecclesiastical demesnes.

In this way, much land gradually passed into the hands of the cultivators. Yet many remained landless or eventually had to sell their newly-acquired property to the wealthier townsfolk or to the old nobility. Small owner-operators were in a relatively weak position, unless they used progressive methods, intensively cultivated advantageous crops, and associated together in cooperatives in order to achieve economies of scale. However, the small owner-operators of the South were far from being progressive, rational, or cooperative. Consequently, their fortunes varied greatly. Moreover, many small owner-operators or their sons eventually became landless owing to the practice of subdividing land among heirs, which decreased income as plots became more fragmented and dispersed.

Thus, the disintegration of feudalism, which was practically complete by the 1880's, resulted in a broadening of property distribution at the top of the South's socio-economic structure, by increasing the number of wealthier families. It did not lead to a more or less equalitarian system of small owner-operators. However, this broadening of property distribution went further in the Deep South than in Apulia or Sicily's Interior, where property remained largely concentrated in the hands of a minority.

The feudal landowners who survived in the Deep South until the end of the nineteenth century no longer had a monopoly of real estate. Before repatriating emigrants multiplied the number of small holdings, property was gradually distributed more evenly among those at the upper levels of the Deep South's socio-economic scale, as medium and small rentiers became more numerous. The importance of the smaller rentiers was enhanced by the disappearance of the Deep South's feudal elites from the castles and convents, as the feudal and ecclesiastical demesnes were subdivided and the wealthy moved to the cities.

The distinction between the small rentiers and the cultivators was not a great one in terms of income. The Deep South had a "mixed", rather than a highly unequal system of income distribution. Small, medium, and large holdings were generally ranged side-by-side in each district. Thus, property-based status was ranged on a continuous scale, in contrast to the definite gap between rich and poor in feudal times. For the less wealthy, emigration was

a means of competing for socio-economic status, by investing savings accumulated abroad in purchases of land and houses in their hometowns.

The remaining common lands did not serve to integrate the individually operated plots as they did in the Center, the Alps, and Sardinia. They suffered from neglect and short-sighted despoliation until they became all but worthless. In some districts, usi civici (ancient rights of partial or complete usufruct) survived or were translated into forms of multiple property, whereby pastures, firewood, fruit, or ground crops were vested in separate persons. The doubtful legal status of these rights discouraged initiative and encouraged exploitation for immediate personal gain.

Distinctive Class Structure in Apulia and Sicily's Interior

Apulia's agriculture benefited from the large scale of operations as well as the capital and management of entrepreneurs. On the Tavoliere plateau of Foggia province (Apulia) and also along the Metapont and pre-Murge Corridor of eastern Basilicata, the large masses of landless laborers worked as day laborers in seasonal gangs. As property and income remained concentrated in the hands of estate owners and large-scale entrepreneurs, a distinctive class structure with a definite gap between rich and poor was carried over from feudal times. The small Appennine district of Western Apulia was economically akin to the Deep South, in that it had a "mixed" property distribution system, and, unlike Apulia as a whole, it had high emigration rates.[5]

In a sense, the distribution of property and the forms of agriculture in Sicily's Interior occupied a position intermediate between the Deep South and Apulia. The traditional class structure was preserved by the feudal landowners and their gabbeloti middle-men through the use of violence and corruption, rather than through economic enterprise alone. The estates of the feudal landowners were leased to gabbeloti who, in turn, alloted plots to the cultivators on individual sharecropping or short-term fixed rent contracts. There was little direction or finance provided by the upper class.

In Apulia, in the districts where gang laboring was not prevalent, the principal contracts were fixed renting and improvement contracts. The improvement contracts were of many years' duration and repaid cultivators for improvements. Small-scale renting also provided more stability and more scope for profitable initiative than did the contracts in Sicily's Interior.

The Center: Agricultural Property, Operations, and Class

There was generally a far more distinctive class structure in the Center than in the Deep South. Agricultural property was highly concentrated, and agricultural operations were hierarchically organized in much of the Center, as they were to a lesser extent in Apulia.

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5. Inchiesta Parlamentare, etc., op. cit., 1909-1911, Vol. III, Tome 1, pp. 55, 646.

Mezzadria (sharefarming, as distinct from sharecropping) was the most prevalent contract throughout the Center. After the Risorgimento, mezzadria also spread through the hills of Teramo province, in northern Abruzzi-Molise.[6] Under mezzadria, each cultivator and his extended family were assigned a relatively self-contained farm with a farm house in situ. In the Deep South, there were generally neither farms nor farm buildings. The mezzadria contract generally lasted decades and often several generations. The stability and self-sufficiency of mezzadria farms provided the opportunity for far-sighted care of soil resources and stands of timber. It obviated the fragmentation of plots, which was a major impediment to agricultural development in the Deep South. On the contrary, it permitted an elaborate rotation of crops with livestock.

The proprietors of mezzadria farms, unlike their counterparts in the Deep South, paid their proportionate share of basic working capital. They were therefore actively interested in management, or employed competent agents or foremen. In the Deep South, non-cultivators provided their cultivators with little capital or direction.

In the southern Marches and in Teramo province, mezzadria was generally on a smaller scale than elsewhere in the Center, since there were few large estates. In Tuscany, Umbria, Emilia-Romagna, and the northern Marches, properties worked by mezzadri (sharefarmers) were more highly concentrated. The fattorie, comprising numerous integrated sharefarms, were under the direction of managers and foremen who supervised the allocation of working capital and operated the estates' central flour mills, barns, and wine and olive presses.

The large estates on the Padanovenetian Plain of lower Emilia-Romagna were operated by their owners or large-scale entrepreneurs, sometimes grouped in private companies, who generally employed mezzadri or wage laborers. On some large estates, certain crops were also tended by comparteci panti share croppers. The landowner or lessee provided them with the entire working capital and had the ground prepared for them. Moreover, the crops assigned to them made up only one phase of these estates' elaborate rotations.

Agricultural operations in lower Emilia-Romagna were highly capitalized; crops and forage for stall-fed cattle were intensively rotated; the land was irrigated on a large scale or drained by collective organizations; many tasks, such as levelling, ditching, pumping, plowing, sowing, and harvesting, were mechanized. In the cascine type of irrigated estates along the Lombard border, courtyards housed permanent wage workers, who specialized as foremen, drivers, canal supervisors, and milkers and were arranged pyramidally for managerial purposes. In the Bassa, the reclaimed swamp land along the border of the Veneto, the estates' labor force comprised more casually or seasonally employed gangs of laborers; this was the most turbulent part of rural Italy.

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6. The census and other statistics indicating mezzadria elsewhere in the South are generally incorrect, with a few minor exceptions, and come from literal translations from local dialect words for sharecropping. Most of the small pockets of classical mezzadria south of Teramo province had been introduced by internal migrants from the Center.

The Maremma plain in southern Tuscany was mainly held in large estates which, towards the end of the last century, were made over from extensive cultivation to intensive cultivation. In this way, there was a gradual change from gang-laboring to mezzadria.

The large estates prevailing in Tuscany, Umbria, and Emilia-Romagna sometimes employed managerial staffs which were qualified in agricultural science, surveying, or accountancy. Such a "managerial revolution" did not reach the Deep South or Sicily's Interior. Furthermore, estate owners and large-scale lessees were themselves interested in improving techniques. In Tuscany, for instance, they organized discussion groups, agricultural magazines, and agricultural research and training institutes. In Emilia-Romagna, they joined together to buy seed, fertilizer, and equipment and to market products.

Small owner-operators predominated only in a few small areas of the Center, principally Lucca and, to a lesser extent, Massa-Carrara provinces. However, in Massa-Carrara province, income was not so evenly distributed, since many inhabitants worked in marble quarries owned by wealthy families.

Emigration from the Center, as a whole, was at a considerably lower level than from the South. The Marches had the highest rate of all the Central regions. The movement was greatest from Macerata and Ascoli-Piceno provinces, in the southern Marches, where small-scale mezzadria was the general rule. In Tuscany, Lucca and to a lesser extent Massa-Carrara province, where small owner-operators prevailed, contributed most to emigration. Teramo, with its small-scale mezzadria, contributed less to emigration than Abruzzi-Molise's other provinces, which were close to the ideal-type of the Deep South.

Enterprise in the South

The Deep South lacked entrepreneurs. In the Deep South and, to a lesser extent, in Sicily's Interior, agriculture was left to the cultivators who, working as small owner-operators or under individual contracts with non-cultivator landowners, failed to join together and undertake large-scale land improvement schemes.

In Apulia, large landowners had sought to improve yields. In the Tavoliere wheat belt of Foggia province, large-scale entrepreneurs introduced mechanization. Wealthy landowners were also active in agriculture in Bari and Lecce provinces, particularly by encouraging their cultivators to raise yields on the basis of long-term improvement contracts. Wealthy Apulian families also set up agricultural research and training institutes.[7]

In the Interior of Sicily, the large landowners were generally absentee and took little interest in their estates. They left them in the hands of gabbeloti lessees, who were not as enterprising as their counterparts in Apulia. They

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7. A. Serpieri, La Struttura Sociale dell'Agricoltura Italiana, 1947, pp. 105, 163; Inchiesta Parlamentare, etc., op. cit., 1909-1911, Vol. III, Tome 1, pp. 5-8, 71, 475, 646; Tome 2, p. 14.

failed to introduce new crops but, in a few cases, introduced mechanization and actively participated in management.

In Apulia, property remained concentrated owing to the enterprise of large-scale lessees and landowners. In Sicily's Interior, the large estates survived at least partly through alliances between economic and criminal power; the gabbeloti were gangsters as well as entrepreneurs. Throughout the South, the communal administrations created by the new central government were dominated by a small, propertied literate minority, since suffrage was very limited until 1913; universal male suffrage was not introduced until 1919. In Sicily's Interior, mafia secret societies controlled both the town halls and the estates; and thus helped to retain the concentrated wealth of feudal times by levying taxes and administering common lands in favor of the large landowners and the gabbeloti.[8]

Lack of Enterprise in the Deep South

The savings of the Deep South went almost entirely into non-risk investments, such as State securities, post office bonds, post office deposits, and the buying of land and town buildings. Rather than a shortage of capital, there was a shortage of capitalists. The proceeds from the auctions of feudal demesnes went to the State, draining off the Deep South's capital. Capital was rarely devoted to the capitalization of agriculture; land and house buying was the principal form of local investment.

When the Deep South's emigrants returned from abroad, as many did, they followed the established pattern. They changed the distribution of income but did little to improve agricultural yields, except by applying more manpower to the plots they acquired.[9]

The non-cultivator landowners displayed a singular disregard for their own agriculture. They dissociated themselves from manual work and did not associate together to undertake land improvement projects. Although property in land was the basic measuring rod of socio-economic status, both management and cultivating were despised. Small landowners often operated their holdings with the labor of others, although in this way they often remained as poor as those who worked for them. Those landowners who were able to employ outside labor stood merely in a rent or share collecting relationship or a wage paying relationship to their cultivators. The wealthier landlords were absentee, like their counterparts in Sicily's Interior. However, they turned over their lands, not to gabbeloti, but to inactive agents, often small rentiers in their own right, who left agricultural operations to the cultivators with their primitive methods.

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8. L. Franchetti and S. Sonnino, La Sicilia, 1925, Vol. I, pp. 1-70, 107-173; Vol. II, p. 133.

9. Inchiesta Parlamentare, etc., op. cit., 1909-1911, Vol. II, Tome 1, p. 273; Vol. IV, Tome 1, p. 613; Vol. V, Tome 1, p. 83. Foerster, op. cit., pp. 451-459.

The non-cultivators generally lounged in the piazza, operated small shops, took white-collar jobs, or moved to the cities. The Deep South and Sicily produced numerous lawyers, doctors, accountants, and classical scholars, many of them unemployed or unemployable, who lived inertly as small rentiers or absentee landlords or gained sinecures in the communal administrations through patronage. Many small rentiers moved to Naples or secured office jobs with the civil service throughout Italy. [10]

Instability of Agricultural Operations in the Deep South

In most districts in the Deep South, non-cultivator landowners usually employed cultivators individually under contracts of a year's duration, thus accentuating competition. This was agriculture without farms; the plots allocated to, or owned by, individual cultivators were fragmented and dispersed. Thus, the integration of wood lots and livestock with crop raising was out of the question. Often, in the same year, a cultivator with his nuclear family worked on a number of plots for different proprietors under a variety of contracts, varying from seasonal sharecropping (colonia parzaria in terreni non appoderati) to day laboring. Perhaps he also worked a plot of his own; the Deep South's small owner-operators were rarely self-sufficient. This combination was highly variable. Its variability from year to year, which was accentuated by the subdivision of land among heirs and the giving of dowries, determined the status of the cultivator as he jockeyed for position in this highly competitive society. The short duration of contracts discouraged cultivators from making improvements on the land of others and encouraged "soil-mining".

Contrary to common opinion, there were few large estates in the Deep South by the beginning of this century. The major exceptions were the Metapont and pre-Murge Corridor in eastern Basilicata, where emigration rates were lower than those of the Deep South proper. [11] The large estates of the Deep South proper were generally allotted separately to cultivators on individual contracts. They were not worked by teams of laborers as in Apulia and eastern Basilicata. Sharecropping (as distinct from mezzadria, sharefarming) was the most common contract in the Deep South. The landowners provided their sharecroppers with little working capital and practically no managerial direction. Moreover, the terms of this contract were highly variable from district to district and from period to period. Thus, sharecropping in the Deep South was very different from the sharecropping of compartecipanti in lower Emilia-Romagna. The instability and lack of integration of agricultural operations in the Deep South contrasted sharply with the stability and integration of agricultural operations in most of the Center.

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10. Inchiesta Parlamentare, etc., op. cit., 1909-1911, Vol. III, pp. 22-24; G. Medici, L'Agricoltura e la Riforma Agraria, 1946, p. 118; A. Serpieri, op. cit., pp. 172-174, 183; and A. Volpe, Italia in Cammino, 1931, p. 67.

11. Inchiesta Parlamentare, etc., op. cit., 1909-1911, Vol. VI, Tome 1, p. 136.

Individualism and the Family in the Deep South

Many observers have remarked upon the extreme individualism prevalent in the Deep South, which contrasted sharply with the upper class economic leadership and working class solidarity of the Center and Apulia. Yet there is no definite evidence about the social psychology of the Deep South. Is individualism an explanation of socio-economic behavior in the Deep South, or is it merely a convenient empirical label? It is possible that individualism, as a sort of basic personality, derived from childhood experiences, was a cause of the Deep South's socio-economic system. But there is no available evidence which differentiates between the rural regions of high and low emigration rates in these terms. Furthermore, the term "individualism" neglects the fact that there was solidarity within the cultivators' families in the Deep South. The Deep South was familistic, rather than individualistic.[12]

There were marked differences in family organization between the Center and the South. In the Center, generally speaking, the family was extended and patrilocal. In the South, the neolocal, nuclear family, set in a vaguely defined multilinear kindred system, was the rule. However, the scope and form of the family alone were not consistently related to emigration rates, since the nuclear family was as prevalent in Apulia and Sicily's Interior as it was in the Deep South. Likewise, the extended family was as widespread in the Marches as in the rest of the Center.[13]

The social systems of the Deep South, on the one hand, and Apulia and Sicily's Interior, on the other, differed in that economic aspirations in the Deep South referred only to the narrow circle of relatives centered on the nuclear family. In Apulia and, to a lesser extent, in Sicily's Interior, economic aspirations were expressed through the nuclear family and extra-familial associations, including the mafia in Sicily's Interior, within hierarchic socio-economic systems. Likewise, in the southern Marches and Teramo province, the extended family functioned as a labor unit in the common interests of its members. But, unlike in Emilia-Romagna, Tuscany, Umbria, and the northern Marches, there was little associative behavior beyond the family in the southern Marches, and there was a less distinctive class structure. In short, extra-familial relationships in the selected rural regions were closely related to their socio-economic systems; and the forms and functions of the family reflected their overall social structures.

Class, Politics, and Emigration

In the selected rural regions, emigration came mostly from "mixed" property distribution systems, which were highly competitive, rather than from

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12. Cf. E. C. Banfield, The Moral Basis of a Backward Society, Chicago, 1958. This is a community study of "amoral familism" in a town of Potenza province (Basilicata) which apparently is quite typical of the South.

13. Inchiesta Parlamentare, etc., op. cit., 1909-1911, Vol. IV, p. 533; Vol. V, Tome 1, pp. 66, 154, 198, 226; Vol. V, Tome 2 p. 588; Vol. VI, Tome 1, pp. 464-465. Serpieri, op. cit., pp. 153, 227.

highly unequal income distribution systems, where relatively discrete classes existed. In other words, emigration rates were not meaningfully related to average income levels. The cultivators were more or less equally poor throughout the Center and the South. The Inchiesta Parlamentare concluded "that [in the Center and the South] the standard of living is little different, although there are no definitive data on this point."[14]

G. Lorenzoni's indices of agricultural property concentration in 1921 have a high inverse correlation with the selected rural regions' transoceanic emigration rates before the First World War, and also a high direct correlation with the 1928 average income figures (see Table 2). Moreover, the proportions of Socialist votes at the 1919 elections, the first based on universal male suffrage, have a high inverse correlation with transoceanic migration rates in the "free" period (see Table 3). The official figures for strikes and labor union membership, although they are not precise, indicate that the Socialist vote in 1919 reflected persistent working class organizations carried over from the prewar years. The proportional Socialist vote, and the frequency of strikes and labor unions, did not depend on differential urbanization and industrialization, as Table 3 shows.

Only the Socialist party unanimously aimed at, and predicted, a Utopia for cultivators and workers which would bear little resemblance to contemporary power systems. The other reformist or radical political movements compromised in theory, as well as fact, with the socio-economic status quo. The "white" Catholic cooperatives, mutual benefit societies, and credit funds were not incompatible with private property. Unlike the Socialists' collective leases, those organized by the "white" labor unions were not collectively operated but subdivided into individual allotments. Nor were the ex-servicemen's cooperatives, formed only after the First World War, revolutionary in purpose. They aimed to redistribute private property more equitably, not obliterate it.

The working class movements of the rural regions were most revolutionary in the "Red Crescent", namely, Emilia-Romagna, Tuscany, Umbria, and the northern Marches, and, to a lesser extent, in Sicily's Interior and Apulia. Before the First World War, there were hardly any strikes in the Deep South.

In Sicily's Interior, militant cultivators' associations, the Fasci, were formed as early as 1875. They were banned by the authorities, but their membership increased until 1894, when the central government suppressed them with the help of the military. In 1893, they allegedly had two or three hundred thousand members and thus possibly represented a third of the island's male working population. In that year, the Fasci won important concessions from the estate owners by the "agreement of Corleone". The Fasci's principal task was to replace the gabbeloti middle men, by negotiating directly with the large landowners. Since they subdivided allotments among individual members, they were more akin to the "white" Catholic unions than to the Socialist unions of the "Red Crescent".

After the state of siege imposed on Sicily in 1894, many Fasci leaders were imprisoned, and their membership decreased. At the same time, Sicily's emigration rates rose rapidly towards the levels reached by the Deep South.

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14. See Footnote 3.

The labor unions of Apulia were not rigorously suppressed by the central government, although they were more socialistic than the Fasci. In 1904, the Apulian Socialists founded the short-lived Republic of Cerignola on the Tavoliere of Foggia province.

Labor unions and strikes were organized in the "Red Crescent", although they were illegal until 1901. In 1894, there was an uprising among the Anarchist quarry workers of Massa-Carrara province. In 1904, the sharefarmers in many Tuscan fattorie held violent strikes. During "Red Week" in 1914, many districts in eastern Emilia-Romagna and the Northern Marches revolted and set up short-lived "soviets".

The Center, particularly the "Red Crescent", had numerous working class cooperatives, including production cooperatives which leased and worked estates and carried out public works contracts. There were very few cooperatives in the Deep South, other than mutual benefit societies which generally were only funeral funds organized by priests.

In the selected rural regions, militant cultivators' associations were to be found only where property was highly concentrated and landless cultivators formed a class apart. They did not necessarily arise where most cultivators were landless. In the Deep South, before emigration increased the proportion of small owner-operators, most cultivators worked for non-cultivators, rather than on land of their own. However, there was no solidary cultivator class in the Deep South. The cultivator in the Deep South had "an individualistic purpose [in life], his own transformation from a proletarian to a person of means and then a proprietor".[15] In Apulia, by contrast, the labor unionists strove to better their position by collective bargaining for higher wages and overall political change, instead of striving individually within the prevailing power structure to become like those who exploited them.

It may seem, therefore, that in the Center and the South, the relative levels of emigration depended on the levels of integration of aspirations for material betterment. In the Center and the South, where economic aspirations referred only to the welfare of the nuclear family, emigration rates were high; where economic aspirations were integrated more broadly through extra-familial associations, emigration rates were low, irrespective of average income levels.

Alpine Emigration

Although there was relatively little transoceanic migration from Piedmont, Lombardy, and the Veneto, and little continental migration from the Padanovenetian Plain in 1902-1913, there was a huge traditional movement to neighboring countries from the Alps which lie along Italy's frontiers. The statistics for continental migration from these border regions greatly underestimate its extent, but, as Table 1 shows, there is no doubt that the emigration rates of the sparsely populated Alps were close to or even higher than those of the Deep South, since there was little emigration at the time from the densely populated Padanovenetian Plain of Piedmont, Lombardy, and the Veneto.

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15. Inchiesta Parlamentare, etc., op. cit., 1909-1911, Vol. VIII, pp. 72-73.

Table 3. Transoceanic Migration, Socialism, and Labor Unionism in Italy's Rural Regions

Selected Rural Regions	Trans-oceanic Migration, 1911-1913[a]	Socialist Vote, 1919[b]	Rural Socialist Vote, 1919[c]	Urban Industrial Socialist Vote, 1919[d]	Agri-cultural Strikers, 1909-1913[e]	Agri-cultural Strikers, 1919-1920[f]	Socialist Labor Union Members, 1912[g]	Agricultural Labor Union Members, 1912[h]
Emilia-Romagna	96	601	559	617	355	296	26	39
Tuscany	161	439	455	433	1	343	4	2
Umbria	159	469	561	444	43	231	2	3
Marches	416	337	303	343	127	131	2	2
Abruzzi-Molise	795	103	230	156	5	40	-	-
Basilicata	826	73	12	155	-	3	-	2
Calabria	856	73	118	52	6	1	-	1
Sicily	723	179	51	68	11	33	3	5
Apulia	368	184	297	69	88	132	6	11

Correlation coefficient of a and b = -.93 (significant at .05 level)

Emilia-Romagna in columns a and b includes Rovigo province on the lower Padanovenetian Plain (the Bassa) of the Veneto; Abruzzi-Molise in columns a and b includes Benevento province (which was fairly typical of the Deep South) in Campania; in column c it excludes both Benevento and Campobasso provinces.

a. Per 1,000 inhabitants in 1911. The migration rates in the other tables are calculated in terms of annual population estimates for intercensal years.

b. Per 1,000 voters.

c. Per 1,000 voters in non-urban, non-industrial communes, excluding provincial capitals.

d. Per 1,000 voters in urban and industrial communes, including provincial capitals which in some cases (especially in the South) were in fact predominantly agricultural.

e. Total agricultural strikers reported per 1,000 males engaged in agriculture in 1911. These figures, like those in columns f, g, and h, fluctuated considerably from year to year in Tuscany, Umbria, and the Marches, but remained at a low level in the regions of the Deep South.

f. Total agricultural strikers reported per 1,000 males engaged in agriculture in 1921.

g. Socialist labor union members as percentage of male population of working age in 1911.

h. Agricultural labor union members as percentage of males in agriculture in 1911.

Source of columns c and d: Istituto Centrale di Statistica e Ministero per la Costituente, Compendio delle Statistiche Elettorali Italiane dal 1848 al 1934, 1947, Vol. 11, p. 140.

Yet the Alps had highly associative socio-economic systems, in marked contrast to the individualistic, familistic socio-economic systems of the Deep South. The Alpine economy was based on individually owned and operated cultivated land and meadows at the lower altitudes and large collectively or communally owned summer pastures and forests on the heights. There was hardly any industry. Dairying and seasonal or short-term emigration to continental countries were the main sources of income; cultivation and forestry were of secondary importance.

The individual cultivators' plots were integrated with the common lands on a neighborhood, cooperative or communal basis. In some cases, the common lands were leased at auction to forestry enterprises and livestock owners from the Padanovenetian Plain. The communes or traditional neighborhood associations which owned them distributed their earnings equitably among the local inhabitants. Since most of the Alpine folk were literate by the end of the last century and the right to vote depended on literacy or wealth, there was practically universal male suffrage at their communal elections. Thus, unlike the Deep South, where the great majority of the population was disqualified from voting by illiteracy or poverty, the town halls were not in the hands of a virtually self-elected minority of non-cultivators.

In other cases, forests and pastures were operated in common. Mountain pastures were also rented to the cooperatives which processed the milk produced in each locality. Sometimes groups of herders rented their dairy cattle to the herder who won these pastures at auction, or employed him to care for their herds during the summer months.

In addition to the cooperatives which made cheese and butter in each neighborhood, there were numerous cooperative credit funds, cooperative banks, and consumers' cooperatives, which further integrated the individually owned and operated plots and meadows on the lower levels. There were also some cooperatives which owned summer pastures or raised and tended herds in common. Unlike the cooperatives of the "Red Crescent", these associations either had no political "color" or were "white". The Socialist party and the "red" working class movements had practically no support from the Alps.

This was a relatively egalitarian society; the Alpine folk were generally self-employed and also worked together in associations. "He who likes to preach that great ideal... social equality will find himself at home in these mountains... but very often it is the kind of equality which discomfits the idealist... it is the equality of common poverty."[16] Private property was extremely fragmented and dispersed--more so than in the Deep South, where there are still many medium-sized properties and some large estates. There were no farms, although in a sense, integration of the local economy through collective ownership, associative grazing, and cooperatives formed a relatively autonomous "farm", comprising a whole neighborhood.

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16. Inchiesta Agraria e sulle Condizioni della Classe Agricola, 1881-1884, Vol. IV, p. 16.

However, unlike the Padanovenetian Plain of Piedmont, Lombardy and the Veneto, where the socio-economic system was similar to that already described for lower Emilia-Romagna,[17] and unlike the "Red Crescent", Apulia, and Sicily's Interior, there was no distinctive class structure in the Alps. Thus there was no upper class which the Alpine folk could blame for their poverty. The equality of income distribution throughout the Alps did not provide an opportunity for a "class struggle" as an alternative to emigration.

Taking the Alps into account, it is evident that emigration rates were not simply linked to the extent of associative behavior. Rather did the levels of emigration from the South, the Center, and the Alps depend on the presence or absence of militant cultivators' associations organized along discrete class lines.

Militant cultivators' associations, on the one hand, and emigration, on the other, were alternative means of seeking increased income. The choice of one or the other of these alternatives depended on the class structures of the areas considered, irrespective of their average income levels. If there is any doubt about the Inchiesta Parlamentare's conclusion that poverty was the common lot of the cultivators in both the Center and the South, there is no doubt that the cultivators of Apulia were as poor as their counterparts in the Deep South and Sicily as a whole. The choice of militant labor unionism and revolutionary Socialism, instead of internal or international migration, by the cultivators of Apulia certainly did not depend on their being more prosperous than the cultivators in the rest of the South.

Emigration and Fluctuations in Income

Emigration increased income among the cultivators at home: those abroad sent back remittances; repatriates took back their savings; and the decrease in the labor supply led to a rise in wages and an improvement in the terms of contracts from the cultivators' point of view. Internal out-migration, of which there was little from Apulia, no doubt had the same effects. Yet the increase in income in the districts making large contributions to emigration did not, in turn. make for a decrease in internal or international out-migration: the flow continued to grow apace until the First World War.

Contrary to common opinion, the economic crises and natural catastrophes which occurred in the South do not explain its regions' high emigration rates in any general sense. The decline of olive production, with the advent of the olive fly, and the decline in the wine trade, after the severance of Italo-French commercial relations in 1888 and the spread of phylloxera, undoubtedly lowered income in much of the South. Yet emigration from Apulia, which was hard hit by these events, remained at a low rate.[18] The Southern Appennines, which

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17. Land tenure and agricultural operations on the Padanovenetian Plain of Lombardy and Piedmont were more or less on the same lines as the cascine along the Lombard border of west Emilia-Romagna. In the south Veneto, they were more akin to the system on the large reclaimed estates of east Emilia-Romagna; together these areas are known as the Bassa.

18. Cf. R. E. Dickinson, The Population Problem of Southern Italy, 1955, p. 16.

comprise the greater part of the Deep South, and the Interior of Sicily were less subject to these crises, but had higher emigration rates.

The disastrous earthquakes which struck in Messina province and Calabria in the 1900's doubtless provided the particular impetus for those who were willing to seek economic betterment abroad. But they do not shed any light on the high rates of emigration from other parts of the Deep South, such as Basilicata and Abruzzi-Molise, where there were no such disasters.

In the early 1890's, the wheat and sulphur crisis in Sicily's Interior coincided with a rise in its emigration rates. However, at this time, the central government imposed a state of siege, following local uprisings, and the army used severe measures to put down the area's militant popular associations. In 1904, after an economic crisis, the mezzadri of Tuscany's fattorie struck. However, from 1901 the government no longer suppressed militant working class organizations, and emigration from this area did not increase considerably as it had done in Sicily. Likewise, there had been isolated waves of emigration from the Bassa soon after unsuccessful strikes; there was little emigration after 1901, when this area's powerful militant working class organizations were free to strike without governmental interference.[19] Thus, the rise of Sicily's emigration towards the levels reached by the Deep South may have been due to the government's restrictions on economic betterment through labor unions, rather than a product of the contemporary economic crisis.[20]

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19. Coletti, op. cit., pp. 114, 122, 133, 136-137.

20. Cf. S. N. Eisenstadt, The Absorption of Immigrants, 1954, pp. 2, 228; J. S. Lindberg, The Background of Swedish Emigration to the United States, 1930, pp. 207-211, 258; and W. I. Thomas and F. Znaniecki, The Polish Peasant in Europe and America, 1918, Vol. IV, p. 298; Vol. V, pp. 3-6.

A FOOTNOTE TO PROFESSOR KUZNETS' "QUANTITATIVE ASPECTS OF THE ECONOMIC GROWTH OF NATIONS"

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A study of the data collected by Professor Kuznets for the first installment of his analysis[1] suggests a further point which he does not seem to have made himself. Table 9[2] brings together data for ten countries for which long series are available of, inter alia, product per capita. For eight of these countries, the data are sub-divided into three sub-periods covering in toto periods of close to 100 years in most cases. The data are arranged both in terms of decade units and also moving averages of the decadal rates. If we concentrate our attention on these moving averages, which, in Professor Kuznets' words, "provide a moving picture of the underlying trend, presumably free of alternations that occur within periods of 30-35 years,"[3] we find a marked tendency for these three sub-periods of about 30 years to show cyclical fluctuations in the rate of growth in per capita product. Of the eight countries covered, all but one show a cyclical pattern for the three sub-periods, i.e., either a rise in the rate of growth in per capita product, followed by a fall, or vice versa. The seven countries concerned are: UK, France, Denmark, Sweden, Italy,[4] US,[5] and Canada. The only exception, i.e., where the three sub-periods show a persistent change--in this case a fall--in the rate of growth of per capita product, is Japan. (The significance even of this sole exception is perhaps diminished by the fact that only decade units are available and not moving averages.) It is surely noteworthy that in all the seven instances of a European and European-type development observed over long periods and divided into an early, middle, and late sub-period, the rate of growth has failed to show an accelerating or decelerating trend throughout the three sub-periods.

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* The author is a member of the Secretariat of the United Nations, but this note expresses his personal views and not those of the United Nations Organization.

1. "Quantitative Aspects of the Economic Growth of Nations. I. Levels and Variability of Rates of Growth," this journal, Vol. V, No. 1, October 1956.

2. Ibid., pp. 38-40.

3. Ibid., p. 37.

4. Figures for decade units only, moving average not stated.

5. For the US, the figure for GNP has been taken. The figure for NNP shows no cyclical pattern.

A possible interpretation of this finding is as follows: there are certain periods in which the "classical" tendencies towards diminishing returns and economic saturation begin to make themselves felt, and the rate of growth in per capita product begins to slacken; but these are succeeded by periods in which the level of capital accumulation releases forces of technological progress and/or economies of linkage in which new investment opportunities are created faster than are used up by capital accumulation itself, and the efficiency of new investment begins to increase again. This has been the pattern in the UK, Sweden, the US, and Canada. In all these countries--markedly in the UK, the US, and Canada--the rate of growth in per capita product declined in a middle period (usually centering around 1900), only subsequently to expand again vigorously.

The opposite pattern obtained in France, Denmark, and Italy. Here the capital/output ratio rose at first and fell subsequently--markedly in France and Italy. This suggests a different "Latin" pattern in France and Italy from the "Anglo-Saxon" pattern of the UK-US-Canada. In the Latin pattern, the later sub-period shows symptoms of saturation, and the creation of new investment opportunities has not kept pace with the accumulation of capital; but both these countries, of course, are also those which, among the countries included in the analysis by three sub-periods (which excludes Germany and the USSR), were most directly affected by war operations on their own soil.

THE STATISTICAL MEASUREMENT OF JAPANESE ECONOMIC GROWTH*

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The first attempts to measure Japanese economic growth were made over fifty years ago. This is a history long in years; unfortunately, it is not equally long in quality. It is a colorful story involving, among others, Japanese and foreign scholars, individuals and government agencies, Marxists, Mitsubishi, and Colin Clark. Without a doubt, it is also an extremely intricate history, because competing scholars and institutions borrowed freely from one another, sometimes forgetting to give full credit to the lender. No matter what specific measures of economic performance are involved--be it national income, production indices, capital formation, or others--all too often the basic sources and statistical methods have been left unidentified and unexplained in the literature, making critical evaluation difficult.

Foreign students of Japanese economic growth have always been in a particularly difficult position. Between Kinzo Nakamura's first estimate of national income for 1900 and the latest government White Paper for 1957, a tremendous amount of statistical information on the performance of the Japanese economy has poured forth. Most of it has remained effectively hidden behind the language barrier, with only brief summarized translations appearing sporadically.[1] At the same time, the few figures and measures that were available hinted at extraordinary economic achievement: high sustained rates of growth, large savings ratios, and rapid capital accumulation. With interest in Asian economic development rising, the need and desire for a precise picture of the Japanese experience has been growing. Professor Kazushi Ohkawa and his colleagues have taken a big step forward in meeting this need.

The appearance in English of The Growth Rate of the Japanese Economy is an important occasion for all students of economic development, regardless of regional loyalties. This book makes available to foreign readers in compact form for the first time the most useful historical-statistical series of Japanese

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* A review article of Kazushi Ohkawa, in association with M. Shinohara, M. Umemura, M. Ito, and T. Noda, The Growth Rate of the Japanese Economy since 1878, Economic Research Series I, Institute of Economic Research, Hitotsubashi University, Kinokuniya, Tokyo, 1957. This is an enlarged and revised translation of Nihon Keizai no Seicho Ritsu, published by Iwanami in 1955.

1. Recently, a useful English summary of Japanese growth literature by Myohei Shinohara has been circulated in multigraph form. See "A Study of Japanese Literature on Japanese Economic Growth", Stanford Project for Quantitative Research in Economic Development.

economic growth, ranging from national income to capital formation, and from population to price deflators. Furthermore, all statistical techniques are carefully explained. In most instances the time period covered runs from 1878 to 1942, and in some cases postwar data are included. This book, as could be expected, is the product of cooperative research, supervised and guided by a well-known Japanese authority, who was assisted by some of Japan's brightest young economists. It is an outgrowth of the "Historical Statistics" project of Hitotsubashi University's Institute of Economic Research, whose ambitious aim is the re-examination and (if necessary) re-computation of all long-run series of Japanese economic growth, starting with the Meiji Restoration. The Growth Rate of the Japanese Economy is the first fruit of these endeavors. In a very short time, it has become something of a local classic, receiving a prize from the Mainichi newspapers as the best piece of empirical research in economics done in Japan during 1955. The cash award, as well as a government subsidy, have made possible the present translation. [2]

Because Professor Ohkawa and his collaborators put their very best cooperative foot forward in this study, a convenient insight is provided into the broad, and as yet unfinished, task of measuring Japanese economic growth. The authors have assembled the best materials available and have made the most up-to-date interpretations. What is said and what is left unsaid supplies ample material for stock-taking and speculation about where future research efforts should turn.

The Growth Rate of the Japanese Economy takes up three distinct but related topics. The first part, long-term changes in national income, spells out the overall conclusions of the macro-analysis. It shows the growth rates of the economy and its sectors, the new income estimates, some revised population figures, and also makes a brief comparison with earlier work in the field. The second part, estimates of net product by industry and related statistics, is closely related to the conclusions presented in the first few chapters. It is here that the bulk of new research was made, and this part gives a detailed exposition of the new income and population series. Clearly this is the most important and interesting section of the book, because analysis must stand or fall on the quality of these basic series. Parts one and two will be discussed as a unit. Part three, approach to measurements of capital formation, contains two attempts to measure capital formation (one based on a variety of national wealth surveys which started in 1905, and the other using the commodity flow technique from 1914) and short sections on capital coefficients and postwar capital formation.

II

According to a survey I made, there are approximately twenty separate estimates of national income for Japan. [3] A majority of these give results for

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2. Vigilant readers may notice a certain similarity between this paragraph and the advertising prose on the inside flaps of the book being reviewed. This similarity is no accident--but it is not plagiarism. I merely performed a small (unpaid) service for the publisher.

Footnote 3 on next page.

only short periods or single years and are not useful for growth analysis. Many of the national income estimates are extraordinarily casual in their make-up; some do not seem to represent more than a leisurely afternoon's work.

Serious research started only when the Cabinet Bureau of Statistics made the first official estimate for 1925. Other yearly estimates were made in 1930 and 1935. Regular yearly national income series have been issued only since the end of World War II and the creation of what is today called the Economic Planning Board. Currently the national income series of Japan are modeled on the U. S. Department of Commerce-UN method and compare in quality quite favorably with those of Western Europe and the United States.[4] For many reasons--financial, traditional, and practical--the Japanese Government has never

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3. It would be too cumbersome to give all the references, because they are mostly in Japanese. Below, I list only the authors in chronological order and the period covered by their estimates. An asterisk marks the foreign efforts.
   1. K. Nakamura, 1900
   2. S. Ishibashi, 1903
   3. T. Yamashita, 1904
   4. C. V. Sale, 1907*
   5. J. C. Stamp, 1914*
   6. S. Shiomi, 1903-1918
   7. Cabinet Bureau of Statistics and Statistical Bureau of Prime Minister's Office, 1925, 1930, 1935
   8. S. Hijikata, 1900-1937
   9. Tanin and Yohan, 1933*
   10. K. Takahashi, 1931-1937
   11. Mitsubishi Economic Research Bureau, 1928, 1930-1938
   12. K. Shibata, 1936-1938
   13. Oriental Economist, 1930-1937
   14. Japan Economic Federation, 1931-1939
   15. Colin Clark, 1887, 1897, 1908, 1914-1940*
   16. F. Barret, 1900-1934*
   17. Y. Yamada, 1875-1955
   18. Economic Planning Board, 1930-current
   19. K. Ohkawa et al., 1878-1942
   20. H. Oshima, 1881*

   This listing includes only so-called "independent" estimates of national income. These are estimates where some new computations were made and which are not just quotations of existing results. There are, no doubt, a few omissions.

4. A full explanation of the government method now in use is contained in Showa 26 Nendo Kokumin Shotoku (Report on National Income for 1951), published by the Economic Planning Board, Tokyo, 1952. The same group has put out a convenient though highly abbreviated English summary, National Income and National Economic Accounts of Japan, 1930-56, Tokyo, 1957. In addition, Chapter III of Dr. Harry Oshima's unpublished Ph. D. thesis (Columbia), " A Critique of National Income Statistice of Selected Asian Countries", provides an excellent analysis of the Economic Planning Board approach.

shown great interest in economic-historical research. In this instance, the latest national income series were carried back only to 1930, and this has given official estimates only a limited usefulness.

Private scholars have done the big and vital job of preparing series of long-term national income estimates slanted toward growth analysis. The work of three persons has been outstanding: Seibi Hijikata, Yuzo Yamada, and Kazushi Ohkawa. These are the Big Three. In 1933, Hijikata published a series from 1919 to 1930 based on modern techniques and yearly data. For almost twenty years, this was destined to remain the only work of its type.[5] Somewhat later he extrapolated his series back to 1900 and forward to 1937, but this turned out to be a hurried job not worthy of the original segment. In 1951, Yamada published his important analysis of long-run trends in national income.[6] He compiled a comprehensive list of past estimates and, leaning to a certain extent on the efforts of Hijikata, made new estimates of his own from 1875 to 1955, in terms of both income produced and distributed. And now we come to Ohkawa, who has further revised Hijikata and Yamada's results, as well as added many original contributions of his own. So much for the personalities involved.

There are, of course, many similarities and differences in the work of the Big Three. For example, from 1878 to 1940, Yamada and Ohkawa disagree five times about the year in which their income series reach a peak. On ten different occasions during the same time-span, the two series disagree about the direction of the national income movement. That is, when Yamada goes up, Ohkawa goes down, and vice versa. Normally these income series are published in the form of five-year averages, and this minimizes the disagreements. But it should be noted that the differences between Ohkawa and Yamada are neither haphazard nor accidental. They follow an entirely systematic pattern which is the result of different calculation methods applied to largely the same raw data. When the 1920's are reached, the differences become small.[7]

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5. Kokumin Shotoku no Kosei (The Component Factors of National Income), Tokyo, 1933. Hijikata's data were mixed. He used production figures for agriculture, forestry, and aquatic industries, and income figures for the balance of the economy.

6. Nihon Kokumin Shotoku Suikei Shiryo (A Comprehensive Survey of National Income Data in Japan), Tokyo, 1951. A second, revised edition was published in 1957. It is regrettable that this valuable book has never been translated.

7. Yamada's results are higher than Ohkawa's for the entire period, but the divergence is significant only in the 19th century. In terms of the latest research, it would appear that Yamada overestimated secondary and tertiary production and underestimated primary production. An analysis of the difference between Yamada and Ohkawa is available in English. See Yuzo Yamada, "Notes on Income, Growth, and the Rate of Saving in Japan", in Simon Kuznets, ed., Income and Wealth, Series V, London, 1955.

Generally speaking, each successive estimate has been a marked improvement. An over-riding consideration in historical-statistical research is always the scarcity of raw materials. Available data almost dictate the framework of analytical techniques. Although there are important conceptual differences between Hijikata, Yamada, and Ohkawa, my own inclination would be to minimize these. The real contribution of each person can best be measured in terms of new data discovered and the thoroughness with which they were worked over. There is no need for invidious comparisons: every advance has had to build on the groundwork of the past.

The methods by which Ohkawa's national income series are computed need not detain us, because they are clearly explained in the text (Part II). As a basic measure he chose "national income produced"--a Japanese designation--which comes very close to our own "net domestic product at market prices", i.e., goods and services are valued at prices inclusive of indirect taxes minus subsidies, and property incomes paid abroad are included, while those received from abroad are excluded. Estimation procedures may be summarized as follows. The economy is divided into three types of industries (à la Colin Clark): primary, secondary, and tertiary. Gross production is calculated for each sector, and then the series are reduced by an "income ratio" to net production. Generally, income from primary industry (agriculture) is derived from direct production data (pp. 50 ff.). Income from secondary industry (manufacturing) is split into two sub-sources: factory and domestic production. The former comes from direct data, while the latter is taken as a proportion of factory production and employment in factories and domestic industry (pp. 78 ff.) Income from tertiary industry (services) for most of the period is computed by multiplying a base year tertiary per capita income figure--1921-1929--by an index averaging per capita income in the goods-producing sector (primary and secondary) and wages. This yields tertiary per capita income, which is then multiplied by employment in this type of activity (pp. 100 ff.). Two important issues come up in connection with the concepts adopted by Ohkawa.

First, it is necessary to calculate net income series for all segments of the economy. This is a difficult and unreliable procedure. Frequently it means the estimation of netness ratios based on small samples and the application of these, unchanged, for long periods during which there may have been great change. For example, in the case of factory production, the sectoral income rates remain unchanged from 1878 to 1940 (p. 86), and earlier critics have noticed that uncertain procedures have been used in this connection by Ohkawa and others.[8] It seems to me that a lot of effort was dissipated when in fact a GNP approximation would have been more accurate and useful. After all, long-term national income series are used mainly for growth analysis and therefore require concentration on changes in, rather than on the absolute level of, the figures at any particular point of time. In addition, net series are often less advantageous for comparative purposes, nationally or internationally. Data being what they are, it seems inconceivable that one can seriously expect that reliable long-term net capital formation series for Japan can ever be computed. Yet it would be helpful to compare gross capital formation to GNP. In the case

8. Cf. Harry Oshima, "Survey of Various Long Term Estimates of Japanese National Income", Keizai Kenkyu (The Economic Review), Vol. 4, No. 3, July 1953.

of economically backward countries whose rates of growth we may want to compare with Japan's past achievements, a GNP concept is also less ambiguous.

The second consequence of Ohkawa's definition--and this one seems unavoidable--is that in the estimation procedure the economy is split into three segments. While this is not necessarily bad, in the present context a number of consequences follow: (1) because important statistical series were lacking, the subdivision into types of production is unorthodox. Tertiary production, usually confined to services, in this instance is a residual category which contains in addition all of the construction industry and the entire government sector (which in Japan includes a sizeable manufacturing component (p. 16). (2) The data for the three types of production are not on the same level of quality. Those for primary production are the best, followed by secondary, with tertiary bringing up the rear.

For these reasons one must look at Ohkawa's sectoral analysis with some skepticism. In Chapter II of Part I, more than casual emphasis is placed on a comparison of the "goods producing" and tertiary sectors. Frankly, I find the "goods producing" sector a somewhat confusing classification, if the emphasis is to be put on economic development. In terms of growth, it combines two heterogeneous types of economic activity. The point is not that both the primary and secondary sectors produce tangible commodities, but that agriculture remained relatively traditional, while manufacturing and services were revolutionized. Ohkawa's own figures show what one would expect: the trends of secondary and tertiary production were very similar, while primary production took a very different course (pp. 26-31). In Japan, where a very special kind of dual economy prevails to this day, it would be much more instructive to split the national product on the basis of type of product or producing unit, for example, "traditional" and "new". This is a tall order, statistically and conceptually, but it seems to me to be worth a trial.

Quite apart from these problems, the classifications in their present form are subject to distortions, but it is not an easy matter to pin-point their exact nature. By rights, government economic activity forms a part of both secondary and tertiary production. Both government manufacturing and private construction are series that show the effects of cyclical fluctuations, and their combined weight is not a constant part of national income. My guess is that the present method tends to overstate the growth of tertiary and understate the growth of secondary production. For the present no more than a guess is possible.

There is no reason for being pedantic about the methods adopted by Ohkawa, his predecessors, and his disciples. It is just not possible to compute series covering some sixty years of rapid economic growth using only first-rate direct sources. Long-term measures of economic growth imply a liberal dose of statistical compromise and courage. For all that, intelligent use of these series requires a clear realization of their weakest points, not with reference to some ideal measure, but in practical terms where improvement is within relatively easy reach. What can be suggested?

1. Readers of The Growth Rate of the Japanese Economy cannot fail to notice the critical position of factory production in the national income figures. These form the core of the entire secondary production estimates, as well as

play an important role in determining the income produced by the tertiary sector. From 1879 to 1929, the research results of the old Nagoya Commercial College are used in unchanged form. There is considerable evidence to suggest that these series are less than adequate, especially for the Meiji Era. They are probably too low, and a revision is in order.[9]

2. Current research has made it possible to narrow the tertiary category by taking out construction and distributing the government contribution between services, manufacturing, and construction. Since the tertiary estimate is only indirectly computed, any reduction in its scope or substitution of direct series would represent a beneficial change. Data on government expenditures (central and local) are plentiful. After 1890 detailed yearly budgets are readily available, and before that a number of specialized studies give a lot of information.[10] Private construction is a harder nut to crack, but here too the situation is far from hopeless. Good series can be developed for the major urban centers starting from about 1900, and these can be expanded to national totals with population figures. Even an uncertain construction estimate would be an improvement over the present system, in which the tertiary sector is a grab-bag.[11]

3. Something should also be done about the deflators (pp. 116 ff.). Before the 1930's, "real" values are determined by dividing the series by a wholesale price index computed from a simple (unweighted) mathematical average. During the same period only Tokyo prices were used. Clearly the coverage of the index should be broadened, and an adequate system of weights should be constructed. I know that this work is now in progress.

In his introduction to the book, Professor Ohkawa says: "...it will be appropriate to refrain from any analytical judgment of the Japanese economy as a whole...this is simply a report of the results of measurement." (p. v) These words are a too modest appraisal of his own efforts. While economic measurements by themselves do not constitute analysis, they focus our attention on what

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9. Ohkawa agrees (p. 83)! He fails to add that an air of unhealthy mystery has surrounded the Nagoya figures far too long. These data are a by-product of the Nagoya Production Indexes, and when these indexes were published in the 1930's, sources of statistical raw materials and procedures were not clearly set forth. Today these materials are in the hands of private individuals who, for reasons best known to themselves, have refused to release the needed background materials. Unless a speedy truce can be arranged between the skirmishing heirs of the prewar Nagoya Commercial College Economic Research Institute, an entirely new study of factory production should be started. An excellent model would be Solomon Fabricant's The Output of Manufacturing Industries, New York, 1940.

10. E. g., T. Tsuchiya and H. Ouchi in Meiji Zaisei Keizai Shiryo Shusei (Materials on Economics and Finance in the Meiji Period), 21 volumes, Tokyo, 1931-1936.

11. And why is it not possible to use some of Shinohara's capital formation data as a first approximation? These series appear in the same book but never seem to be fully exploited (p. 178 ff.).

is peculiar, interesting, and needs to be explained. Two such topics seem uppermost. First, there are the growth rates of the economy which maintained a modal value of around 4% for the entire period; "...it might be said that as far as output variations are concerned, the Japanese economy has shown an everlasting growing tendency in the past." (p. 22) Secondly, there is the pattern of economic development; "...the large increasing rate of productivity of secondary industry and the remarkable increase of employment in tertiary industry are the most noticeable phenomena in the growth process of the Japanese economy." (p. 25) These are points that require further study, and I would be tempted to add one thought. Growth rates are tricky devices, especially when all the components of a wide aggregate (such as national income) are not entirely independent. In the Ohkawa estimates, secondary and tertiary production are in some degree interdependent: an increase in factory production and per capita manufacturing income would derivatively boost the growth of non-factory industrial and tertiary production. Somehow there is the suspicion that, under these circumstances, it becomes possible to pull oneself up by one's own bootstraps.

III

Compared to the rather large number of national income estimates, capital formation figures--whether we are interested in the long-run or a single year--are still in short supply, and almost all important work has taken place since the end of World War II. Available studies fall into three categories. In the first place, there exist a number of national wealth estimates made by a variety of private and public organizations, starting with the work of the Bank of Japan in 1905, and culminating in the as yet unpublished national wealth survey of the government for 1955. Part III, Chapter II, is an attempt by Masakichi Ito to systematize the wealth series. Secondly, there are also a few capital formation studies done from the "financial side", i.e., attempts to derive results from the summation of investment money flows.[12] Thirdly, some preliminary series based on the commodity flow method as formulated by Kuznets have been made by Myohei Shinohara and appear here as Part III, Chapter III. That is just about all the published work to date. Once again, government contributions have not been of major importance. The Economic Planning Board has estimated capital formation from 1930 to the present, but most of these years were too abnormal to give this short series any great significance.[13]

Space limitations prevent an extended discussion of all the interesting results shown in the last part of The Growth Rate of the Japanese Economy, in which problems of measuring capital formation are examined. However, I would like to make a few comments about Ito's treatment of the national wealth data and Shinohara's commodity flow series.

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12. This type of analysis is most closely associated with the work of Yuzo Yamada and Koichi Emi. See Nihon Kokumin Shotoku Suikei Shiryo, op. cit., p. 88.

13. For a description of the Economic Planning Board procedures, see Nihon Keizai to Kokumin Shotoku (The Japanese Economy and National Income), Tokyo, 1954.

Ito has shown great ingenuity in dealing with what must have been baffling and heterogeneous raw data. He systematized and revised the original figures to such an extent that one wonders whether his capital coefficients and savings ratios still have a clear relation to the sources. On the whole, Ito's measurements appear to yield reasonable answers. There are exceptions, such as the estimates for the years 1913 to 1917, one of the greatest boom periods ever experienced by Japan, when Ito's series shows disinvestment (p. 169).

In Japan, national wealth data can only be of limited value in studying economic growth. The specific years during which the surveys were conducted are not separated by regular time intervals. There is also very little comparability between cyclical phases. Ito had seven wealth surveys to work with. Year end business conditions during the surveys--according to my sources--show these variations.

a. 1905, depression starting at the conclusion of the Russo-Japanese war.
b. 1913, prosperity.
c. 1917, uneven prosperity at the end of a war boom.
d. 1919, prosperity accompanied by speculation and labor unrest.
e. 1924, depression, deepening towards the end of the year.
f. 1930, depression.
g. 1935, normal business activity and the beginning of the war economy.

All this means that the deflators must have maximum validity for accurate analysis. But, as Ito admits himself, deflators are incapable of doing the job, because methods of valuation are often uncertain and nearly always different bases of valuation are used (p. 173). It is not possible to derive proper constant values under these circumstances.

Shinohara's commodity flow estimate (pp. 178 ff.) is certainly the most promising capital formation series currently available. He follows a statistically logical and meaningful method, which should permit more accurate results than the flimsier wealth and financial figures. On the other hand, his efforts reveal the difficulties that are encountered in applying a demanding technique to scant data. These capital formation figures are split into two components, construction and producers' durable equipment, and I merely wish to underline some problems that may not be entirely obvious.

Both producers' durable and construction data are taken largely from the same source: Kojo Tokei Hyo (Factory Statistics). Shinohara calls these a Census of Manufacturers, but this is not an accurate designation. Factory statistics were started around 1909 to collect output and employment information on all factories employing more than five workers. A survey was to be made once every five years. In 1919, due to the rapid development of Japanese industry and beginning of labor troubles, it was decided to survey the factories every year. This policy has remained in effect until now. From 1921 to 1923, coverage was extended to include factories that employed fewer than five workers, provided these establishments had sufficient machinery available to employ at least five workers. In 1923, the old system was adopted once more, restricting coverage to factories employing five workers or more. In 1929, the 1921-1923 concept was adopted again. "Hav- equipment for at least five workers" is an elusive definition, and it is obvious that there are problems of continuity and homogeneity in the use of Kojo Tokei Hyo. Shinohara made no adjustments.

Because Kojo Tokei Hyo includes only private factories, Shinohara chose a convenient simplifying device for gauging government production (p. 184). He took the ratio of public to private employees and multiplied it by private production of producers' durable equipment. This strikes me as an error, because of the implicit assumption that government and private production fluctuate in the same manner (if the ratio of public to private employees remains more or less the same). Quite the reverse is true. In Japan, government production during the period reviewed consisted mainly of an armaments industry whose fluctuations were often governed by political considerations. From 1925 to 1929, for example, government production actually declined as a result of international disarmament efforts. But for that same time period, Shinohara shows an increase, because private business was experiencing a boom.

In his work on construction, Shinohara glosses lightly over what Kuznets has called "the most difficult step in obtaining the global estimate of total construction" which is "ascertaining the ratio of the value of construction materials to the value of construction."[14] This step is not only statistically complicated, because of the value added information required, but it is also important due to the sheer weight which these figures assume in the final estimate of the value of investment for construction. Shinohara is terse about the method of determining the value added ratio before 1930, but in a rapidly developing country this cannot have been a simple problem.

The overwhelming difficulty with the commodity flow series lies in deficiencies of data. Japan, for example, does not have an adequate census of distribution, and no amount of imagination or wishful thinking can make up this gap. One way out is to make a multitude of measurements based on narrow sectors, such as individual industries. A capital formation series by components must now be prepared, and a comparison of this series with Shinohara's global results should provide many fascinating analytical insights.

IV

I must finish this long review by turning to a delicate topic. I do so reluctantly and with the knowledge that some may think my remarks ungracious. The contents of The Growth Rate of the Japanese Economy make it a valuable contribution to scholarship. Unfortunately the quality of the translation is not on the same level. A book cannot be translated in a hurry and on a piecemeal basis, nor can a translation be polished into acceptable shape by consultations. If at all possible, time and money should not be stinted during this stage of the work. I make these comments in a friendly and sympathetic spirit. My fear is that foreign readers may miss something excellent because the style and presentation are not adequate. Today, English is the lingua franca of the academic world, and Japanese scholars should keep in mind the size of their audience when they issue one of their infrequent translations.

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14. Commodity Flow and Capital Formation, p. 334.

A NEW TEXT ON ECONOMIC DEVELOPMENT*

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The person writing a textbook in economic development must proceed along more or less unmapped routes. For despite the vast literature on the subject that has accumulated in the past ten years, the field remains ill defined, and in no sense does there exist a widely accepted set of principles that lend themselves to presentation in the customary textbook style. This means that textbook writing in development is not the writing of received doctrine, the details of which have been worked out in the journals and monographs, but rather it involves a sifting of the literature in a search for a corpus of ideas that may serve the basis around which to build a semester or year course. Given the state of our understanding of development and the literature on the subject, it is evident that different authors will get different results from such a sifting process, and hence it is unlikely that two books will offer the same approach, or even cover the same material. This is likely to remain the case until we learn more about development than we can now claim to know. But the subject is important, and interest in it is high, and many universities feel (rightly) that a course in economic development must be offered now. So books that can be used as texts are important and of interest, and will themselves do much to shape the field and the method of approach that future studies take.

The book under review is written by two well-equipped economists who have read widely and have worked in the general area of development for several years. How they approach the problem and what they have to say is therefore worthy of the attention of all who are involved in teaching in this area of economics. As the book is designed specifically as a text, the reader conversant with the literature will find little that is new in terms of analysis, data, or hypotheses. An appraisal of the book should therefore limit itself to an examination of the method of approach, organization, the treatment of the topics included, and the merits of the subjects included relative to those left out.

The book is divided into four sections: Section 1, Theories of Economic Development; Section 2, Historical Outlines of Economic Development; Section 3, Accelerating Development in Poor Countries; and Section 4, Maintaining Development in Rich Countries. There is also a short introductory section that sets forth the authors' definition of development (behavior of net national product in constant prices) and why they feel it useful to study the subject. We will take a quick look at each major section separately, and then make a few comments on the overall effect.

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* Economic Development: Theory, History, Policy, by Gerald M. Meier and Robert E. Baldwin, New York: John Wiley and Sons, 1957, pp. xix + 588, $8.50.

The section on theory consists of a summary of the "classical", Marxian, "neo-classical", Schumpeterian, and "post-Keynesian" analyses. There is a chapter on each of these plus a chapter that aims "to bring together in a systematic and integrated fashion the major theoretical conclusions about the nature and causes of economic development."

The theory chapters are limited to a straightforward report of the views of certain individual authors: Adam Smith and Ricardo; Marx; Cassel, Wicksell, and Marshall; Schumpeter; Harrod and Domar. The concentration on individual writers is done in order to avoid "becoming bogged down in many usually minor differences among the numerous writers within each school." But is this the best way to get to the essential ideas of each group? It would be if we could safely assume that all of the essentials of the classical contribution to growth theory are found in Smith and/or Ricardo or of the post-Keynesians in Harrod and Domar, but this is surely not true. We are interested in the most useful ideas and insights of a group of men using the same basic model, and it would seem that the very purpose of a textbook requires that the best (in the minds of the authors) be distilled from all such writers and be presented.

This concentration on selected men rather than on basic models seems especially unfortunate in the case of the post-Keynesian theory. The Harrod and Domar analyses were pioneering efforts and consequently unsatisfactory in many respects. Subsequent work has improved upon them in many ways, and to omit these improvements (or to make a quick reference to them) is to give a distorted view of "post-Keynesian" growth theory. With respect to Marx--in the context of a textbook on economic development--we are not so much interested in showing how Marx was wrong as we are in gleaning from the basic Marxian model all the useful material that is there. Had the authors chosen to present a discussion of the Marxian approach based on the contribution of many writers who have used the approach, this section would have been more satisfactory and more useful.

A final comment on the theory section has to do with the chapter aimed at synthesizing and integrating the several theories examined separately. This chapter is more of a summary of particular aspects of individual theories--population growth, capital accumulation, and international aspects of development--than it is a systematic synthesis. The result is that we never learn what the authors themselves think the strategic factors of development are or what the strategic relationships are. The student is therefore not given an approach or a set of tools with which to approach the following sections. This chapter should be the key chapter in the text, but it does not so emerge. The consequence is that earlier chapters resolve themselves into histories of thought, and the later historical chapters are unable to make use of the theories that are discussed. Names are mentioned later, but the analyses as such are not employed.

Consider now the "Historical Outlines of Economic Development" section. The authors first argue that a stage approach--e.g., hunting, pastoral, agricultural, commercial, and manufacturing--is not satisfactory, and then develop the notion of a center and periphery around which to discuss their historical materials. A country is a center of the world economy if "it plays a dominant, active role in world trade". A country is on the periphery of the world economy if it plays a "secondary or passive role in world trade". Evidently, from the middle of the nineteenth century to the outbreak of World War I, Britain

clearly was the center and most of the rest of the world periphery. The chapters then consider the emergence of industrialization in Britain, and a detailed quantitative survey of the British economy from about 1860 or 1870 to 1940. A final chapter in this section notes the breakdown of the Britain-oriented center-periphery arrangement, and states that the United States replaced Great Britain as the center. Some reasons for this and some consequences of it for world trade and development are discussed.

There is a great deal of useful information in these sections, and the information is presented in a clear and revealing manner. The data on Britain are largely from Phelps-Brown's several studies, Hoffman's well-known work, and Imlah's (and others') terms of trade data. Independently of the usefulness of the concept of center and periphery, these chapters provide a good collection of the empirical raw materials of growth analysis.

The alternative approach to such an historical section would be to examine the developmental process as it has occurred in several countries of different endowments and different experiences. This has been done in several places, and another one chapter survey of Japan, Mexico, India, or the United States is hardly needed. It is therefore useful to have the approach chosen by Meier and Baldwin worked out. It is, however, difficult to use the method as a guide to studying individual countries now. As noted above, most of the material is about Britain, and the analytical significance of the center-periphery concept is never made clear in the book. Furthermore, the theories discussed earlier do not lend themselves to use in such an approach. Evidently we need to know something about the world economy in which an individual country undertakes to develop in order to understand that country's development problem, but it seems to me that emphasis must be put on the country, not on the world economy.

The section on "poor countries" describes the basic characteristics of such countries in terms of six main categories of problems: primary-producing, population pressures, underdeveloped natural resources, economically backward population, capital deficiency, and foreign trade problems. These characteristics lead to three main obstacles--market imperfections, vicious circles, and international forces--that have blocked efforts to develop. To achieve development, then, these obstacles have to be overcome, and the remaining chapters in this section are concerned with techniques and policies to bring about this goal.

This is the most satisfactory part of the book. The material is presented clearly, the analysis seems very well done, and a student will surely be able to get a good picture of the underdeveloped countries and their problems from reading this section. Some problems are dealt with rather hurriedly and superficially, but given the announced limits, this was necessary. It is here that the book seems most like a good textbook; the literature has been distilled, and a coherent body of thought emerges that lends itself to teaching.

The section on "Maintaining Development in Rich Countries" begins with some comments on the appropriateness of development as a policy goal, then a few remarks on nineteenth and twentieth century policies of various countries to implement development. A chapter on "Characteristics and Trends" that takes a quick empirical and historical look at some aspects of the economies--consumption expenditures, international trade, distribution of income,

etc.--of some rich countries, and two chapters on requirements and prospects for maintaining development complete the book.

These latter chapters contain important materials, but the need for an overall theoretical framework into which to put this information is strongly felt. One is also reminded here how little is known about technological change, capital accumulation, and population growth. We can say fairly confidently that these phenomena are strategic in the growth process, but after having said this, we are just about through.

There are three bibliographical appendices on "Socio-Cultural Aspects of Development", "Development Programs and Plans", and "Case Studies of Development", respectively.

There are two or three general remarks that may be of use to the potential user of this text.

The book has an abundance of references, and given the state of our understanding of development, this characteristic is exceedingly useful (as it would not be in most other texts). There is, however, one difficulty here. In relying so heavily upon reporting the literature, the authors have allowed inconsistencies to develop. On page 259, we read, "The problem of adapting to the changing pattern of world trade was especially difficult in so far as almost two-thirds of Britain's exports at the turn of the century were in industries that were of declining importance in world trade." And then on page 263, "Only to a small extent can this decline [in Britain's share of world trade] be attributed to the fact that the United Kingdom was exporting goods that were declining in relative importance in world trade." Similarly, on page 162 we are told in a footnote that the Schumpeterian entrepreneur became important only well after the Industrial Revolution period, and on page 167, "Schumpeter's hero, the innovating entrepreneur played a central part in the rise of modern capitalism." Each of these statements is based on a reference cited in a footnote, and even if reconciliation is possible, they are likely to confuse the student. It would seem to me that these and other somewhat contradictory passages would not have occurred had the authors really distilled the literature into a body of consistent hypotheses and arguments, rather than to a very great extent reporting the literature. Had such a procedure been followed, it also seems likely that the student could see the relevance of the abundance of historical and quantitative data presented in the text more clearly than he now can.

I would have preferred that some arguments be developed more completely. For example, the discussion of "disguised unemployment" seems incomplete. It is defined, said to exist, and then it is noted that some economists dispute its existence. There is no discussion of (say) the behavior of wage rates, capital costs, and technology necessary to produce this kind of unemployment. The student who learned about least cost combinations of inputs and marginal rates of substitution may require the notion of disguised unemployment elaborated. There were other places as well where it would seem to me to be advisable to have additional clarification. Admittedly, were this done, something else now included in the book would have to be omitted. This suggests a final point.

The range of the book is wide, and many problems are mentioned and much material is presented to be examined and explained. Further, the problem

are of many different kinds. The question then arises as to whether we should design a course that covers all aspects of the development problem adequately, but not deeply and thoroughly, or whether we should think in terms of a course that limits itself in such a way that all problems that are brought up are treated more or less completely. Evidently, situations vary, and a case may be made for either side. Economic development is a many-sided process that can and has taken place (and not taken place) under many divergent circumstances. Perhaps this point is more important to see clearly than are the details of "disguised unemployment".

I have purposely omitted discussion of the substantive material of the book for the reason stated earlier; it is designed as a text, and all the analyses will be familiar to those who teach or read in this field. One may quarrel with occasional sentences here and there (especially in the theory section), but these were rare for me, and if the authors' approach to the subject is accepted, then one is unlikely to find much fault with the substantive economics. The writing style is satisfactory, although one gets the impression that some parts were written in a hurry.

This review has concentrated largely on the difficulties involved in writing a development text in the way Meier and Baldwin chose to write one. Any other approach would, of course, contain as many difficulties. Perhaps, in a way, it is too early to write a text in this field. We need more monographs, more articles that define the process and make clear its workings. But, as noted earlier, we need texts badly now, and no one would advocate not writing a text merely because it does not solve everybody's problems. The merit of the present volume is that it does undertake the task and provides us with a tremendous amount of information conveniently and effectively presented. That the authors have not solved all problems is beside the point. They have written a text that will result in future books being better and more useful, and this is a substantial accomplishment.

POPULATION REDISTRIBUTION AND ECONOMIC GROWTH: A REVIEW*

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The directors of the project which is partially reported in the volume under review consider that population redistribution both affects and is affected by economic growth. Migration is regarded as the main mechanism of adjustment to the redistribution of economic opportunities occasioned by discovery of natural resources and technological changes, which impinge unequally upon industries and areas. Migration may contribute to economic growth by offsetting potentially unfavorable redistributive effects of differential natality and mortality; and, by virtue of its selectivity by age and other characteristics, migration serves to place the more productive components of the population in the locations of expanding opportunity.

The general picture of rapid economic growth in the United States during the study period, 1870-1950, is well known. Population nearly quadrupled, increasing from 38.6 to 150.7 million. Figures given in the text (p. 5) indicate that per capita total wealth in constant prices nearly tripled, and data from other sources suggest that national income per capita in constant prices somewhat more than tripled as a consequence of a 13-fold increase in national income. Also familiar is the fact that there was a concomitant spatial and industrial redistribution of the population. Whereas 26 percent of the population lived in urban places in 1870, 59 percent were urban in 1950 (under comparable definitions). Over the same period the proportion of gainful workers in non-agricultural industries rose from 48 to 88 percent. The magnitude of the State-wise net population redistribution may be indicated as follows: assume that each State grew by the national rate over the 80-year period: at the end of the period it would have been necessary to move 21 percent of the population across State boundaries to duplicate the observed 1950 distribution of population (my computation). Whether these population shifts, in combination with areal differentials in rates of economic progress, resulted in an equalization of income or welfare differences among areas is a rather delicate problem of measurement and inference. (It will be interesting to see whether the authors reach a firm conclusion on this point in the second volume of the study, to be published some months hence.) One can determine from Easterlin's figures (p. 753), however, that such differences form a pattern today which is somewhat similar to that holding three-quarters of a century ago. The (Spearman) rank correlation between estimated

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* Everett S. Lee, Ann Ratner Miller, Carol P. Brainerd, and Richard A. Easterlin, Population Redistribution and Economic Growth, United States, 1870-1950, Vol. I, Methodological Considerations and Reference Tables, prepared under the direction of Simon Kuznets and Dorothy Swaine Thomas, Philadelphia: The American Philosophical Society, 1957, pp. xix + 759, $5.00.

personal income per capita by States in 1880 and in 1949-51 is .77 (my computation). Such a correlation, of course, reflects any constant bias in concept and method of estimating income as well as actual stability of rank-order pattern. Nonetheless, a fair summary of the data on economic growth in areal terms must include reference to the inertia of the pattern of inter-area differences as well as the sometimes enormous variations in rates of change by States.

The reader is not given much hint as to the plan of analysis followed in the project. The "methodological considerations" contained in the present volume refer to techniques of estimating and adjusting data, rather than those of analyzing and summarizing the statistics. Of one thing we can be reasonably sure: however ambitious the analysis, it will hardly exhaust the uses of the data here presented in extended form. This volume is undoubtedly destined to become an indispensable reference source for students interested in any aspect of the demographic and economic history of the United States since the Civil War. It has methodological value as well. The discussion of survival ratio methods of estimating net migration is probably the best source on the subject that one could find; the more specific techniques for reconciling and adjusting data, while they may not prove applicable in detail to other problems, merit study by all statisticians attempting to work with historical statistics. A remarkable feature of the volume is that the number of pages devoted to description of sources, estimates, adjustments, and comparability of data is nearly as great as the number allotted to the presentation of the basic statistics. Because almost all of these statistics are given in adjusted form, one cannot readily check the accuracy with which they have been transcribed from the sources, but the work gives every appearance of having been carried out most meticulously. The presentation is a model of convenience and clarity.

The four main sections of the volume present migration estimates and related series (Lee), labor force estimates (Miller and Brainerd), estimates of manufacturing activity (Easterlin), and State income estimates (Easterlin). All data are for States, which had to be accepted as the nearest approximation to a suitable areal unit for time series extending over several decades. Some details on the content of each section follow.

Estimates of net intercensal migration are given for each decade, 1870-80 to 1940-50 by nativity, color or race, sex, and age. These were derived by the forward application of census survival ratios. Census survival ratios, as compared with life table survival ratios, have the advantage of incorporating implicit corrections for census enumeration errors and the disadvantage of ignoring inter-State mortality differentials. It is demonstrated, however, that inter-State differentials in survivorship are relatively minor at the ages of heaviest migration, as, indeed, is almost necessarily the case in view of the low mortality at these ages. In any event, State life tables are not available prior to 1930. Perhaps the most significant reliability check reported is the comparison between net migration estimates by the survival ratio method and the estimates obtained from State-of-birth statistics in terms of intercensal change in birth-residence indexes. Inasmuch as State-of-birth data were not tabulated by age until 1950, there is no way to effect a conceptually exact comparability of the two types of estimates. Nonetheless it is reassuring that the two completely independent techniques show moderately high rank order correlations by States for each decade and exhibit rather high conformity in identifying major up- and downswings in net migration rates from decade to decade.

Aside from their use in checking the net migration estimates, the State-of-birth statistics given for each census year, 1870-1950, provide the only available long series showing origin and destination of migrants. As is well known, such statistics measure migration net of intervening moves and of returns to State of birth, are confounded by the incidence of mortality, and permit no specific determination of the timing of migration. Yet one can imagine that much will be learned from a judicious juxtaposition of the net migration estimates giving certain basic characteristics of the balance of migration and the State-of-birth figures indicating directions of movement.

Also included with the migration data are figures on the urban-rural composition of the population by race or nativity at each census date, 1870-1950. These required relatively minor adjustments and estimates to produce series with comparable residence definitions over the decades. The intra-State redistribution of population revealed by these figures may well prove to be as significant in the analysis as the information on inter-State flows and migration balances.

To obtain estimates of total gainful workers, 1870-1930, and labor force, 1940-50, the principal adjustments undertaken were in reference to age coverage of the census inquiries on economic activity and age classification of the economically active population. A review of the evidence suggests that the shift in concept from gainful worker to labor force between 1930 and 1940 produced some discontinuity in the series, but perhaps less than might be expected a priori. In any event, suitable adjustments to achieve comparability were not available on a State basis. Correction for enumeration errors, identified as the other major source of inter-census non-comparability, was likewise not feasible.

Industry classification of gainful workers (or labor force) is given for each of the nine census years in terms of an agriculture-nonagriculture break, but only for 1880, 1900, 1940, and 1950 with any breakdown of the nonagriculture sector. In both cases, figures prior to 1940 had to be estimated from occupation data. In addition to some relatively minor problems in respect to agriculture-non-agriculture classification of occupations, the major estimation problem was the allocation of "laborers, not specified" between the two sectors for the years 1870-1900. The proportional allocation procedure adopted for splitting this occupation group, which amounted to around one-tenth of all gainful workers in each year, can only be described as an expedient, but one which is not demonstrably inferior to any feasible alternative.

Much greater difficulties were encountered in attempting a conversion of the 1880 and 1900 nonagricultural occupation data to the following broad industry groups: forestry and fisheries; mining; construction; manufacturing; transportation, communication, and utilities; trade, finance, etc.; private household services; all other services and public administration. The general magnitude of the problem is indicated by the fact that for 1880 the proportion of gainful workers in occupations allocated to a single industry was 60.6 percent; the proportion in occupations allocated to more than one industry was 39.4 percent (including the 10.6 percent reported as "laborers, not specified"). Corresponding proportions for 1900 were 63.7 and 36.3 percent, respectively. The appendix describing bases and procedures for these allocations takes up no less than 100 pages of the volume. Quite a burden of proof is, therefore,

placed on anyone who thinks the estimates are subject to serious remediable error, although it is quite evident that the results must be approximate at best.

The estimates of manufacturing activity in the third part of the volume include revisions of various series in the successive Censuses of Manufactures, i.e., those pertaining to number of establishments, employment, employee compensation, value of products, value added, and capital investment. The major adjustments were for changes in census coverage in terms of establishment size and industry. In several instances, two sets of figures are given for the same year to achieve comparability with earlier and later figures, respectively. The figures on capital values do not go beyond 1919 and are considered to be of relatively low quality, though probably superior in comparability to the data on number of establishments. "The best series would seem to be the employment and corresponding compensation series, and the series on value added and value of products." (p. 678) The detailed discussion of comparability through time of individual series is notable for its attempt to indicate magnitudes of discontinuities for individual States.

The final section of the volume presents total and per capita personal income figures for 1880, 1900, 1919-21 average, and 1949-51 average. Personal income is broken down into property income and service (wage and salary and proprietors') income. The later is subdivided into agricultural and nonagricultural income. The appraisal of these estimates is best left to specialists in income measurement. However, it is evident that, as Kuznets and Thomas point out, "The difficulties of estimation in this segment were of a different order of magnitude from those in other parts of the study", quite apart from "possible distortions caused by interstate differences in price levels and trends" (pp. 4-5). As is the case throughout the volume, the reader finds here a full exposition of assumptions used to bridge gaps in the data and, so far as they are available, indications of the possible magnitude of errors in the several components of the estimates.

One cannot study this volume even in a cursory way without being awed by the prodigious effort required to produce it, grateful for the wealth of information it supplies, and eager to see the forthcoming analyses promised by the authors. Here, it seems, the slogan of "interdisciplinary research" has been made to mean something.

As one mulls over the research possibilities opened up by this compilation of data, he is led to reflect not only on the potential contribution of the "segmental substantive analyses" (p. 2) that will emerge, but also on the general problem of describing, measuring, and explaining long-run socio-economic change. Perhaps it is not only the handicap of fragmentary, approximate, and non-comparable data that has to be overcome before we can expect a breakthrough in this field. There is also a need for concepts appropriate to the problem, both in terms of their connections with a theoretical scheme and in respect to their operational manipulability.

Take the concept of "growth". Kuznets and Thomas state (p. 2): "By economic growth we mean long-term sustained increase in the total population and total and per capita economic product, in constant prices." This elementary notion of accretion has been called "simple growth" by Boulding, who also points out that its measurement always involves an abstraction from a situation in which

"structural growth" and even "structural change" are also necessarily involved, if only because of non-proportionality. If we choose to adopt this somewhat more complicated view of change, then the preoccupation with "comparability" is placed in a somewhat different light. Presumably, changes in census definitions are introduced from time to time by government statisticians, not just out of pure cussedness, or even solely because they discover better ways of measuring the "same things". On the contrary, many such changes are virtually forced upon them, because the "things" being measured are changing qualitatively and structurally, as well as quantitatively. If the term be allowed, it is clear that economic systems not only "grow", they also "evolve". Part of the most imperfect record of that evolution consists of, for example, the changes in census procedures in respect to "hand trades" versus "factory establishments" (a careful discussion of which is given on pp. 638-646). The stance taken in the present volume toward such changes is indicated in the following: "In order to bring the concept of manufacturing for the census years 1869 through 1899A more closely into line with that for later years, we decided to adjust the data for this early period by deducting industries wholly eliminated thereafter by the criterion of 'production for the general market'" (p. 641). It is clear, therefore, that "non-comparability" is not merely a technical problem, and that in spite of any technical virtuosity in reconciling discrepant definitions, strictly "comparable" data are also data which carry a bias of temporal perspective.

The authors of Population Redistribution and Economic Growth are, of course, as well aware of these issues as anybody, despite their seeming preoccupation with the somewhat legalistic aspects of comparability and relative neglect of other sides of the problem. (See, for example, the statement on p. 656: "Since the present discussion is restricted to explicit deviations from the basic definition, the possibility of variations in interpretation placed on rather broad inquiries by individual respondents is not taken up.") What we are anxious to learn is how successful they have been in establishing relationships between the "evolutionary" and the "growth" aspects of the spatio-temporal variations recorded in their data.

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